



APPROVED OPERATING BUDGET FISCAL YEAR 2014



FISCAL YEAR 2014 APPROVED OPERATING BUDGET

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EMPLOYEES RETIREMENT SYSTEM OF TEXAS
A COMPONENT UNIT OF THE STATE OF TEXAS
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INTRODUCTION

The Employees Retirement System of Texas (ERS) Operating Budget for Fiscal Year 2014 contains organizational charts, budgets, methods of finance, and sources of funds. It also contains Fiscal Year 2013 accomplishments and Fiscal Year 2014 major initiatives that are based on the most recent ERS Strategic Plan.

EXPLANATION OF NOTES

The budget tables in this document use two types of notes:

- **“Footnotes”** (indicated in superscript to the right of budget line item descriptions) explain variances between the FY 2014 Budget and the FY 2013 Forecast for line items of \$100,000 or more at the division level and \$250,000 or more at the agency level. The explanation of variances appears after the budget tables.
- **“Notes for Contracts and Other Costs”** appear in the budget column titled Exhibit B. These notes identify contracts that the Board is authorizing the Executive Director to enter into on behalf of ERS. These contracts include those for professional and consulting services, and other contracted services that are necessary for the performance of the Board’s fiduciary duties under the state constitution.

METHOD OF FINANCE

ERS maintains trust funds for retirement and insurance programs. These trust funds finance administrative costs for the ERS operating budget. ERS also collects fees from Social Security and Texa\$aver participants. In addition, all retirement system members pay an annual membership fee of \$3.00. ERS allocates administrative costs among programs to reflect the cost of each. ERS does not receive direct state appropriations toward its operating budget.

FY 2013 FORECAST

The FY 2013 Forecast amounts are based on actual expenditures through June 30, 2013 and projections through August 31, 2013.

ROAD MAPS

The road maps presented in Exhibit C provide a graphical presentation of the major projects planned in Fiscal Year 2014.

FISCAL YEAR 2013 ACCOMPLISHMENTS

The ERS budget supports projects that align with the agency's strategic directions. These directions were reviewed and renewed as part of a strategic plan update in FY 2013. Fiscal and human resources are allocated towards achieving progress in each of these areas:

SUPPORTING RETIREMENT SECURITY

- Worked with legislative members to secure passage of Senate Bill 1459 which makes progress toward increased sustainability for the retirement programs by increasing both the employer and employee contributions, and lowering costs through retirement benefit modifications. The bill:
 - Established a new benefit design for state employees hired after September 1, 2013, reducing the plan's liability for those employees,
 - Establishes an additional source of funding for the retirement plan from employers, who now are required to pay 0.5% of their employee payroll directly to the retirement trust fund. This non-appropriated funding is in addition to the general revenue from the State, which will increase over the next four years,
 - Maintains the defined benefit plan structure for all ERS participants.
- Earned investment returns above policy benchmarks.
- Supported the interim benefits study on retirement through educational briefings and testimony.
- Developed asset/liability study using a collaborative process incorporating staff, board, Investment Advisory Committee, and consultant expertise and began the transition to new asset allocation targets.
- Funded the emerging markets advisor.
- Raised profile of ERS investments through conference sponsorships and presentations – increasing the presence among emerging managers and new asset class managers.
- Expanded and improved the \$2.1 billion TexaSaver Deferred Compensation Program by:
 - Incorporating the Real Asset and Short Term Government Fund into the core fund line-up, garnering \$1.3 million in assets, and issuing a Request For Information (RFI) for an international fund addition,
 - Growing to \$3.3 million in assets in more than 1,500 Roth contribution accounts.
- Implementing a voluntary self-service feature to escalate account contributions.

OPTIMIZING GROUP BENEFITS

- Worked with legislators to secure sufficient funding for the health insurance program which is expected to maintain the current benefit plan design and contribution structure.
 - Directed by legislative model alternative health insurance plan designs that could provide more affordable benefits for certain employees covering family members,
 - Modified health insurance eligibility to provide the highest employer contribution of 100% to employees who work 20 years or longer, 75% contribution to employees with 15 to 19 years of covered employment, and 50% contribution to employees with ten to 14 years of covered employment.
- Supported the interim benefits study on insurance through legislative briefings and conference presentations.
- Achieved a 97% enrollment rate in the HealthSelect Medicare Prescription Drug program, providing cost effective prescription coverage to 73,298 enrolled retirees.
- Successfully filed for \$12.89 million from the federal Retiree Drug Subsidy (RDS) during the four months the program was used in FY 2013. Also implemented a contract to audit RDS claims to ensure that the plan gets every dollar it is due.

- Transitioned the short term and long term disability insurance programs to a new vendor. Branded the program as the Texas Income Protection Plan (TIPP) for state employees and improved marketing to increase employee awareness of the program.
- Offered employees the ability to apply for optional coverage that requires evidence of insurability using a streamlined online application process.
- Developed monitoring and operational processes to complete the transition to the HealthSelect third party administrator.

ENGAGING STAKEHOLDERS FOR INFORMED DECISION MAKING

- Educated stakeholders on benefit and financial issues related to the legislative decision making process, including numerous communication pieces, testimony, special briefings and presentations:
 - Visited all legislative members and provided targeted ERS information,
 - Participated in employee and retiree association events, meetings and hosted periodic briefings.
- Conducted 155 events, touching base with about 12,000 attendees.
- Broadcast board meetings, solution sessions, and the trustee election candidate forum.
- Involved the membership as part of a review of the ERS public website for usability and functionality improvements. Improved processes and documentation for website content review and updates.
- Informed members of benefit information, enrollment deadlines and legislative activity using multiple communication channels including:
 - Social media through YouTube, Facebook, and LinkedIn,
 - ERS website attracting 383,000 visitors,
 - Targeted emails to more than 500,000 subscribers,
 - Printed and mailed booklets and newsletters,
 - Video presentations and webcasts,
 - Online training resources and specialized training sessions for employees.
- Provided employers with a customized website and fully documented policy, procedure and processing manuals.
- Interacted with 435,169 members through phone calls.
- Met with 5,336 visitors to ERS.
- Responded to 13,936 customer inquiry emails.

ENHANCING AGENCY PERFORMANCE AND ACCOUNTABILITY

- Operated internal Legislative Analysis Group to work as a team to monitor legislative activity and coordinate the agency response. The LAG group uses a shared worksite and automated workflow and reference system. During the legislative session, group members:
 - Tracked 323 introduced bills, 142 of which required detailed analyses,
 - Prepared 116 cost estimates to provide financial impact of approved legislation to retirement trust fund or other benefit programs.
- Conducted trustee election process.
- Emphasized enterprise risk management by elevating position and conducting full enterprise wide risk assessment.
- Identified key positions in agency and created succession and staff development plans to improve retention of employees and smooth transitions in the event of resignations and retirements.
- Created key document index site making important documents consistent and easily accessible to ERS staff members.
- Upgraded ERS OnLine, Financial and Human Resources databases, increasing production system stability and performance.

- Upgraded the investment accounting system.
- Introduced a phased approach to benefits enrollment, creating more predictable system and customer support cycles, and improving service response times.
- Offered retirees choice of paper or electronic retiree newsletter, lowering printing and postage costs, while providing customer choice.
- Strengthened technical system security.

FY 2014 BUDGET REQUEST

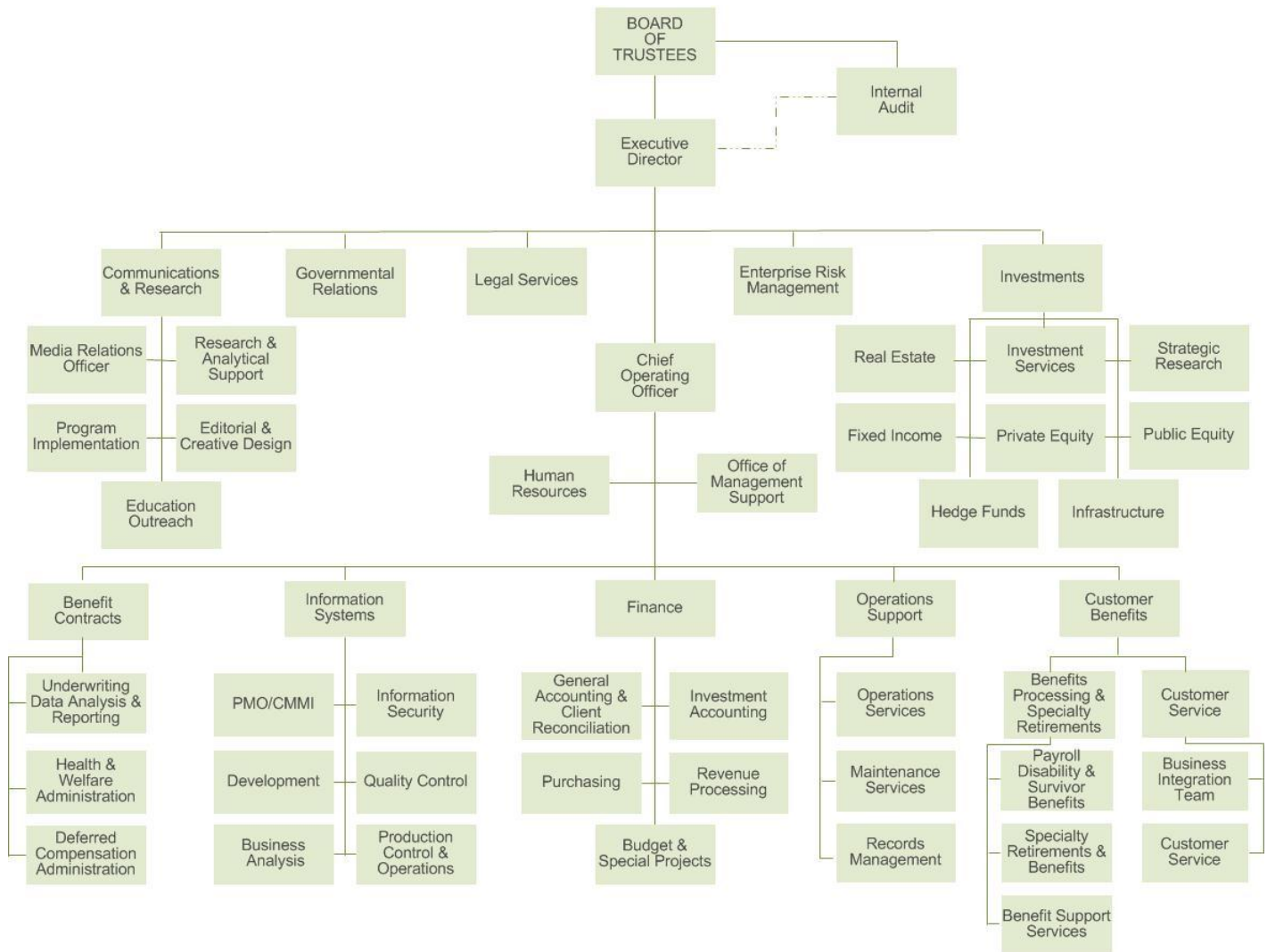
Salary and other salary costs make up approximately 61 percent of the total budget.

Other Salary Costs include the state benefits provided to ERS employees, including longevity and benefit replacement pay, group benefits health insurance, the state retirement contribution, and the employer match to Social Security. Due to increased workload, the Approved staffing level increased to 362 FTEs for FY 2014.

The FY 2014 Approved Operating Budget of \$60.6 million represents just 0.22% of the funds that ERS administers, which totaled \$27.2 billion as of July 31, 2013 and includes the investment assets of the following:

- The Defined Benefit Plans, comprised of the ERS, JRS, and LECOS pension funds.
- The Employee Life, Accident, and Health Insurance and Benefits Fund.
- The Defined Contribution plans consisting of the 401(k), 457, and Cafeteria Plans.

AGENCY FUNCTIONAL ORGANIZATIONAL CHART FISCAL YEAR 2014



TOTAL FTEs: 362

EXECUTIVE SUMMARY

APPROVED ANNUAL OPERATING BUDGET FISCAL YEAR 2014

	APPROVED BUDGET FY 2013	ESTIMATED EXPENDITURES FY 2013	APPROVED BUDGET FY 2014
Executive	\$ 1,198,197	\$ 1,459,650	\$ 1,428,300
Legal Services	3,080,373	2,877,754	4,482,855
Internal Audit	713,610	680,671	740,760
Governmental Relations	556,625	428,213	442,167
Human Resources	499,063	454,113	480,954
Communications & Research	1,804,664	1,650,486	1,965,690
Investments	19,080,493	17,931,274	21,503,431
Benefit Contracts	3,446,341	2,883,335	3,101,867
Customer Benefits	7,296,902	6,946,818	7,645,461
Finance	3,179,563	3,085,234	3,677,473
Information Systems	10,873,671	11,506,471	11,956,629
Operations Support	3,360,350	3,189,627	3,207,363
Grand Total	\$ 55,089,852	\$ 53,093,646	\$ 60,632,950
Full Time Equivalent Staff (FTEs)	346	346	362
Method of Financing, Estimated			
Employees Retirement Fund			\$ 41,345,609
Law Enforcement Fund			1,897,811
Judicial Retirement Plan Two Fund			588,140
Group Insurance Fund			14,958,149
Flexible Benefits Fund			454,747
Deferred Compensation Fund			436,557
Texa\$aver Fund			818,545
Social Security Fund			133,392
General Revenue Fund			0
Total Method of Financing			\$ 60,632,950

BUDGET REQUEST OVERVIEW

COMPARISON OF THE FY 2014 BUDGET TO THE FY 2013 BUDGET

The FY 2014 Approved Operating Budget increased \$5.543 million, 10.06% over the FY 2013 Operating Budget. A high-level year-to-year comparison is shown in the following table:

	FY 2013 BUDGET	FY 2014 BUDGET	FY 2013-2014 INCR (DECR)
Salaries	\$ 31,139,000	\$ 34,474,000	\$ 3,335,000
Investments Incentive Compensation Plan	1,253,000	2,603,000	1,350,000
Other Expenses	22,698,000	23,556,000	858,000
Total	\$ 55,090,000	\$ 60,633,000	\$ 5,543,000

COMPARISON OF THE FY 2014 BUDGET TO THE FY 2013 FORECAST

ERS is on target to spend \$2 million less in FY 2013 than the approved budget. Most of the difference is related to salary vacancies. The lapsed funds remain in the trust fund for future use. On average, 92% of positions were filled throughout FY 2013. A vacancy rate assumption of 3% is included in the FY 2014 Budget. The FY 2014 Approved Operating Budget is higher than the FY 2013 forecast by \$7.54 million, or 14.2%

	FY 2013 FORECAST	FY 2014 BUDGET	FY 2013-2014 INCR (DECR)	PERCENT CHANGE
Salaries	\$ 28,859,000	\$ 34,474,000	\$ 5,615,000	19.46%
Investments Incentive Compensation Plan	1,341,000	2,603,000	1,262,000	94.11%
Other Expenses	22,894,000	23,556,000	662,000	2.89%
Total Expenses	\$ 53,094,000	\$ 60,633,000	\$ 7,539,000	14.20%
FTEs	346	362	16	4.62%

The key budget drivers for ERS are the expansion of the investment program and the increasing volume and complexity of all of the programs administered by ERS. More details for the budget trend and the increases in program complexity over the last several years are presented in Exh. E.

To provide more detail and transparency, the following budget increase analysis is presented in two parts 1) Investment-Related Growth, and 2) Non-Investment-Related Growth.

Investment Related Growth

	FY 2013 FORECAST	FY 2014 BUDGET	FY 2013-2014 INCR (DECR)	PERCENT CHANGE
Investment Division	\$ 17,931,000	\$ 21,503,000	\$ 3,572,000	19.92%
Investment-Related	1,586,000	3,482,000	1,896,000	119.55%
Other Divisions				
Total Investment-Related Expenses	19,517,000	24,985,000	5,468,000	28.02%
FTEs	73	81	8	10.96%

Investment Related Growth (continued)

- **Salaries** – The Approved FY 2014 budget includes increases in investment-related staffing by eight positions to support the new asset allocation approved by the Board.
 - The Investments Division added six positions. The asset classes of fixed income, infrastructure, and private equity added portfolio managers. Investment Operations added an assistant and a financial analyst. The strategic research section also added an analyst,
 - Legal Services added one position to support alternative investment deals, and
 - Finance added one accountant position to support alternative investment reconciliations, valuations, and financial reporting.
- **Incentive Compensation Plan** - ICP payments are for investment performance payments earned in FY 2011, FY 2012, and FY 2013. This differs from the FY 2013 budget, which included only 2 years of incentive plan payments. The FY 2014 budget was prepared with the assumption of positive performance and exceeding policy benchmarks in FY 2013.
- **Other Expenses** – The increase primarily represents greater support for investments subscriptions and tools including:
 - Bloomberg: six-seven new workstations added for additional staff,
 - FactSet: five additional workstations plus a 3% escalator,
 - High Yield Research Tool – The increase in high yield exposure with implementation of the new asset class,
 - The Investment Accounting Database Warehouse to be developed in FY 2014. It will be used by Investment Operations and Investment Accounting for reconciliation and reporting purposes,
 - eFront – Additional licensing and maintenance fees,
 - Additional legal services to support the increased number (23 to 40) and complexity of alternative investment deals in FY 2014.

Non-Investment-Related Growth

	FY 2013 FORECAST	FY 2014 BUDGET	FY 2013-2014 INCR (DECR)	PERCENT CHANGE
Total Non-Investment-Related Growth for Other Divisions	\$ 33,577,000	\$ 35,648,000	\$ 2,071,000	6.17%
FTEs	273	281	8	2.93%

- **Salaries** – State legislation includes a 1% pay increase for all state employees for Fiscal Year 2014 and an increase in the state retirement contribution by 1.5% to 8%. The Approved FY 2014 budget includes increases to the non-investment related staffing level by eight to support legislative changes, additional workload and increases in program complexity.
 - Internal Audit added one new auditor position to work on the FY 2014 audit plan in line with prior year levels of service,
 - Communications and Research added an Information Specialist position to supplement additional communications to stakeholders,
 - Customer Benefits added one position to support legislative changes to retirement,
 - Finance added a position to support the legislative changes and increased investment accounting workloads,
 - Information Systems added two project managers to support agency strategic initiatives. One systems analyst position was added to provide expertise in support of the quality assurance and testing section. One position was reallocated for research and tactical planning and one for administrative support.

Non-Investment Related Growth (continued)

- **Other Expenses** – The increase represents greater support for member services and legislative changes. Significant items include:
 - The use of temporary contract staff to initially fill some vacant positions in Customer Service,
 - Computer System Services for enhanced efforts on planned projects and initiatives such as:
 - Implementing numerous legislative changes
 - Enhancing Peoplesoft Pension and Oracle Policy Automation systems
 - Improving Business Intelligence Data Warehouse reporting

MAJOR FISCAL YEAR 2014 INITIATIVES

STRATEGIC INITIATIVES

Approval of this budget will allow ERS to conduct the programs and activities outlined in this document in FY 2014. Many of these Approved efforts are included in the strategic plan and align with the agency's four strategic directions for the next five years:

- supporting Retirement Security,
- sustaining Competitive Group Benefits Programs,
- engaging Stakeholders for Informed Decision Making, and
- enhancing Agency Performance and Accountability.

SUPPORTING RETIREMENT SECURITY

The primary objectives for this strategic direction are to:

- improve defined benefit plan sustainability,
- assist members in preparing for retirement readiness, and
- maintain a professional and diversified investment program.

These objectives direct the activities for the defined benefit plan, the Texa\$aver program, and the investment program.

ERS will seek funding for the Actuarially Required Contribution (ARC) and make efforts to outperform the total fund policy investment benchmarks within the limits of the active risk budget.

ERS will review and implement applicable state legislation passed during the 83rd regular and special legislative sessions, including implementing new retirement rules for members who are hired on or after September 1, 2013.

ERS will change the interest on non-contributing member account balances from 5% to 2%.

ERS will conduct the required interim studies on the LECOS retirement and accounting.

ERS will prepare the Legislative Appropriation Request next summer.

In addition, the Investment Program will maintain a professional and diversified investment portfolio with the continued transition to the new asset allocation which is an important goal for the ERS Trust Fund. The agency plans to expand and optimize the effectiveness and efficiency of the asset classes and reduce investment risk through the addition of new risk management tools, external managers and an internal risk committee. And ERS will optimize the effectiveness and efficiency of these programs through the ongoing use of both internal management and external advisors.

ERS will prudently accelerate the transition to a new asset allocation when market opportunities arise and internal resources are available. Risk management processes will be enhanced. ERS will value risk management technology across asset classes. Implementation of a derivative program will be researched and evaluated. Internal investment resources will be leveraged to explore & implement enhancements to the TexaSaver fund offerings. Also, ERS will provide governance reporting.

For the Defined Contribution program, the TexaSaver 401(k) and 457 Deferred Compensation Program, the agency seeks to improve access and expand options for auto-enrollment and the rollover of external funds into TexaSaver accounts. To better assist members in adequately preparing for retirement, ERS will assess and improve communication plans, and evaluate and recommend fund offerings in the Defined Contribution plan.

SUSTAINING COMPETITIVE GROUP BENEFIT PROGRAMS

The objectives for this strategic direction include:

- managing the group benefit programs,
- aligning incentives with health risks,
- sharing responsibility for plan costs, and
- providing resources for policy development.

ERS will conduct a study on Group Insurance Program options.

ERS will also evaluate the Medicare Advantage program enrollment and resulting savings. The Employer Group Waiver Plan plus Wrap for Medicare-eligible employees will be evaluated for savings. HealthSelect third party administrator cost containment strategies will be evaluated. ERS will continue to analyze the costs associated with bariatric surgery coverage and compare it to reduced claim costs for related medical conditions. ERS will also host the 10 State Health and Welfare roundtable conference.

ERS will prepare and conduct annual enrollment and fall enrollment periods for members to make changes to their Group Benefits Program options.

ENGAGING STAKEHOLDERS FOR INFORMED DECISION MAKING

The objectives in support of this strategic direction include simplifying communications and measuring their effectiveness. As part of these efforts, ERS plans to leverage internal and external resources to provide proactive, targeted messaging that meets stakeholder needs.

During FY 2014, ERS will coordinate and support the agency strategic plan development. ERS leadership makes strategic planning a priority. Beginning in 2006, the agency identified four key strategic directions. During the planning process, goals and initiatives are defined to support each of these strategic directions relevant to the next three fiscal years. ERS plans to conduct a series of meetings to reassess its mission, philosophy, strategic directions, goals and initiatives. This inclusive approach is engaging, highly participatory and resulted in the definition of ERS goals and initiatives for the future.

ERS also plans to populate a centralized online research library. Other key initiatives include:

- Develop communication strategy, annual plan and editorial calendar for key agency messages, publications,
- Conduct a follow-up survey to benchmark employee perceptions and engagement to gauge effectiveness of communication efforts,
- Continued outreach to private and public sector entities to benchmark ERS programs and share best practices,
- Improve member's ability to plan for retirement by integrating defined benefit information into the Texa\$aver advisory service,
- Improve the ability to allocate resources and turnaround times by improving compliance with job request form process and identifying and reducing unplanned projects.

The agency also will continue evaluating current communication methods, including an overall review of the external agency website and agency publications, and implement new programs and technologies as needed.

ENHANCING AGENCY PERFORMANCE AND ACCOUNTABILITY

The objectives for this strategic direction include:

- leveraging the skills and talents of ERS staff through employee and organizational development,
- increasing process efficiency,
- integration of agency planning activities, and
- communication to maintain institutional knowledge and meet changing needs.

Key goals include addressing opportunities identified by the Survey of Employee Engagement (SEE), improving supporting technologies, further leveraging external resources, improving service to members, improving data analytical capabilities and business processes, and planning for succession in critical positions and cross-training for critical functions.

ERS will conduct enterprise risk assessments and also update and test the business continuity plan.

ERS will also coordinate the external financial audit and prepare the Comprehensive Annual Financial Report for FY 2013. ERS will prepare the agency administrative operating budget for FY 2015 and reconcile and distribute 1099's.

ERS will increase security, efficiency and transparency in ERS' management of over 200 data exchange partners by implementing an enterprise solution for encryption and transferring of incoming and outgoing files on the ERS server.

ERS will complete the PeopleSoft Security Access re-design to revise PeopleSoft security role assignments to improve management of access privileges to data and processes.

Information Systems, Finance and the Customer Benefits divisions will work together for pension system enhancements and improvements, including developing scenarios and testing.

The Request for Proposals will be developed and reviewed and related contracts will be drafted and negotiated for optimization of ERS' hosted automated call distributor and integrated voice response (IVR) contact center solution. IVR support and enhancement will be studied, including overflow options.

ERS will also address training opportunities identified in the Survey of Employee Engagement (SEE) and succession planning. ERS will also be conducting a new survey during FY 2014.

FISCAL YEAR 2014 SUMMARY BUDGET – AGENCY

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)
Exempt Salaries	\$ 312,000	\$ 305,167	\$ 335,010	\$29,843
Classified Salaries ¹	24,804,186	22,866,275	27,285,984	4,419,709
Classified Salaries - Incent. Comp. Plan ²	1,253,361	1,341,455	2,602,827	1,261,372
Other Salary Costs ¹	6,022,875	5,687,827	6,853,121	1,165,294
Board of Trustees	8,400	5,000	8,400	3,400
Investment Advisory Fee	26,000	25,800	30,500	4,700
Medical Services	50,750	76,000	69,100	(6,900)
Investment Consultants ³	2,576,056	2,286,056	1,978,474	(307,582)
Computer System Services	2,065,640	2,689,900	2,826,134	136,234
Actuarial Services	1,447,253	1,207,253	1,107,253	(100,000)
Legal Services (Outside) ⁴	823,000	877,635	1,934,500	1,056,865
Financial Audit Services	145,874	145,874	146,300	426
Insurance Audit Services	480,000	462,500	400,000	(62,500)
Audit Services - Other	478,500	338,500	227,677	(110,823)
Consulting Services	218,100	180,650	123,000	(57,650)
Professional Services - Educational	86,057	105,257	85,218	(20,039)
Professional Services - Other	277,715	224,435	191,500	(32,935)
Architectural Services	15,000	14,500	10,000	(4,500)
Travel	669,571	603,152	741,155	138,003
Supplies & Materials	235,670	236,167	237,220	1,053
Telecommunications	542,834	434,288	510,500	76,212
Utilities	313,000	265,500	313,000	47,500
Repair & Maintenance Equip & Furniture	51,900	42,996	51,900	8,904
Repair & Maintenance - Computer	1,000,933	888,561	1,043,920	155,359
Repair & Maintenance Land & Building	352,620	345,470	350,620	5,150
Rent on Computer Softw are & Equipment	861,885	678,870	684,730	5,860
Rent on Office Equipment	304,642	304,642	263,742	(40,900)
Rental of Space	37,140	37,140	42,840	5,700
Reproduction Services	71,150	72,950	71,150	(1,800)
Employee Training	231,279	218,418	276,855	58,437
Subscriptions & Electronic Comms ⁵	5,018,977	4,761,292	5,861,944	1,100,652
Membership Fees	68,659	98,615	113,093	14,478
Contracted Temporary & Data Entry ⁶	110,000	490,143	220,744	(269,399)
Insurance	53,000	45,239	53,000	7,761
Classified Advertising	9,450	9,695	11,250	1,555
Miscellaneous Expenses	65,993	66,299	62,686	(3,613)
Postage	838,812	725,000	696,061	(28,939)
Other Contracted Services ⁷	1,438,750	1,400,307	1,096,832	(303,475)
Interest-Delayed Payments	200	65	200	135
Security Guard Services	1,500	1,350	1,500	150
Investment Banking	925,000	925,000	925,000	0
Equipment & Furniture	38,710	53,156	34,165	(18,991)
Books/Reference Materials	16,635	24,147	15,175	(8,972)
Computer Softw are	522,675	615,243	534,828	(80,415)
Computer Equipment	32,300	299,054	50,842	(248,212)
Telecommunications Equipment ⁸	27,800	347,058	24,000	(323,058)
Building Improvements	158,000	263,745	129,000	(134,745)
Total Budget⁹	\$ 55,089,852	\$ 53,093,646	\$ 60,632,950	\$ 7,539,304
Full Time Equivalent Staff	346	346	362	16

EXPLANATIONS OF VARIANCES

¹Classified Salaries & Other Salary Costs – Increase assumes:

- The addition of new positions:
 - Eight new positions to support the Investments activities for fixed income, infrastructure, private equity, operations and strategic research, legal, and financial reconciliations,
 - One in Communications and Research to support communications campaigns for changes in benefits,
 - One in Internal Audit to support the Internal Audit program activities,
 - One in Finance and one in Customer Benefits to support pension system changes and enhancements, and
 - Five in Information Systems to support agency projects and initiatives, one of which was reallocated from the Executive Office.
- Funds for merits, promotions, career ladder salary equity adjustments, and equity upgrades of existing positions.
- The FY 2014 Approved Budget assumes a higher staffing rate than experienced in FY 2013.

²Incentive Compensation Plan – Assumes Incentive Compensation Plan payout based on positive performance and exceeding policy benchmarks in FY 2013. The amount also includes the second and third year payments for prior year performances.

³Investment Consultants – Decrease due to a renegotiated contract with ERS' Private Equity consultant that represented a savings of \$460,000 in the FY 2014 Budget for Consultant Services.

⁴Legal Services – Increase is due to a projected increase in the amount of Private Equity, Real Estate and Hedge Fund deals in order to attain the goal of having the ERS total systems assets be in a range between 8-10%. There is also an increase due to the establishment of IRS related requirements concerning LECOS and Judicial Plan II.

⁵Subscriptions and Electronic Communication – Increase is due to rate increases and the addition of new workstations for additional staff for Bloomberg and FactSet. High Yield Research Tool increased due to the implementation of the new asset class. ISS Class Action will be used for verification of custodian class action filings. Also, ERS switched from Blackrock to Yield Book which resulted in significant savings. Finally, the Investment Accounting Database Warehouse will be added in FY 2014.

⁶Contracted Temporary & Data Entry - Salary lapse was used to fill contact center vacancies with contract temporary staff.

⁷Other Contracted Services – The reduction is due to no trustee election in even fiscal years.

⁸Telecommunications Equipment - Telecommunications equipment, specifically the telephony and network equipment being refreshed/upgraded using FY 2013 lapsed funds. Typically this refresh is conducted every 3 years.

⁹Total Budget increased by \$7.54 million (14.20%) from the FY 2013 forecast. The FY 2014 Approved Budget is 10.06% more than the FY 2013 Approved Budget. The majority of the increase above the forecast is due to an expansion of the Investment Division and includes payments from the Incentive Compensation Plan for qualifying members of the Investments Division. Adding staff and tools to support the Investment Division is a worthwhile investment for the retirement fund.

EXECUTIVE

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 7

FISCAL YEAR 2013 ACCOMPLISHMENTS

The Executive staff provided leadership, communication, and prioritization of goals and resources throughout the past fiscal year. Major accomplishments of FY 2013 include management and coordination of the 83rd Legislative Session and the Board of Trustee election. The Executive staff also advised and assisted with the successful implementation of new third party administrators, as well as supporting regular ERS business operations such as investments, customer service including annual enrollment, and financial reporting.

MAJOR FISCAL YEAR 2014 INITIATIVES

Executive staff will provide management and leadership to the divisions in support of the agency's strategic and operational plans. This includes the expansion of the Investments Division and supporting agency projects including the implementation of Legislative changes – the addition of a new tier III adds complexity to the program, and insurance tiers for retirees, LECOS separate accounting and actuarial calculations for funding, 0.5% of payroll for retirement contribution.

Also, the Executive staff will support agency strategic initiatives such as conducting enterprise risk assessments and updating the business continuity plan. New actuarial tables will be implemented and the actuarial valuation reports will be submitted. The Executive staff will also support the implementation of a dental provider and calendar year enrollment for Medicare Advantage. The Executive staff will also support Information Systems projects such as implementing secure encryption at rest and Peoplesoft Security Access Redesign. Enhancements from the Website Usability Review will be implemented and pension enhancements will be supported. Regular operations will be coordinated such as Annual Enrollment, the external financial audit and annual financial reporting.

EXECUTIVE FISCAL YEAR 2014 BUDGET

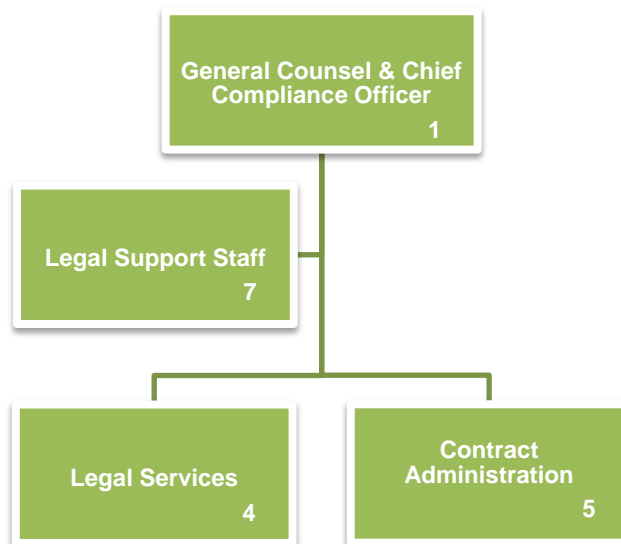
	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Exempt Salaries	\$ 312,000	\$ 305,167	\$ 335,010	\$29,843	
Classified Salaries	512,264	780,528	720,676	(59,852)	
Incent. Comp. Plan			67,032	67,032	
Other Salary Costs	152,123	174,361	194,742	20,381	Note 17
Board of Trustees	8,400	5,000	8,400	3,400	Note 1
Consulting Services	95,100	75,000	75,000	0	Note 15
Professional Services - Other	0	0	0	0	
Travel	12,900	12,255	12,500	245	
Supplies & Materials	120	120	120	0	
Employee Training	7,195	6,835	5,900	(935)	
Subscriptions and Electronic Communications	2,760	3,260	3,700	440	
Membership Fees	4,345	4,345	4,345	0	
Contracted Temporary & Data Entry	0	2,950	0	(2,950)	
Other Contracted Services	90,000	86,745	0	(86,745)	Note 19
Equipment & Furniture	350	350	350	0	
Books/Reference Materials	640	640	525	(115)	
Computer Equipment	0	2,094	0	(2,094)	
Total Budget	\$ 1,198,197	\$ 1,459,650	\$ 1,428,300	\$ (31,350)	
Full Time Equivalent Staff	6	8	7	(1)	

EXPLANATIONS OF VARIANCE

There are no significant variances.

LEGAL SERVICES

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 17

FISCAL YEAR 2013 ACCOMPLISHMENTS

Many accomplishments of the Legal Services Division involve matters that are confidential and protected by the attorney-client privilege. The following represent accomplishments that are not confidential by law (as of mid-July 2013):

- Opened 110 administrative cases; closed 45 administrative cases; 49 subrogation files opened and reviewed - includes 15 subrogation intervention matters referred to the Office of the Attorney General (OAG); and insurance subrogation amounts of approximately \$1,708,342 recovered for the Texas Employees Group Benefits Program (GBP).
- Recovered “collections” of approximately \$14,547, which includes Qualified Domestic Relations Order (QDRO) overpayments, annuity overpayments, fraud and return-to-work disability repayments; this does not reflect the amounts saved by the retirement and insurance funds due to the termination of disability retirement annuities and health insurance benefits for ineligible recipients.
- Reviewed, negotiated and/or drafted 383 contracts/amendments/requests.
- Closed 11 private equity transactions and additional commitments to existing investments for a total capital commitment of \$220,000,000, €142,308,200 and £60,000,000.
- Closed 6 private market real estate transactions and additional commitment to an existing investment for a total commitment of \$315,000,000 and £45,000,000.
- Closed 6 private hedge fund transactions and additional commitment to an existing investment for a total commitment of \$240,000,000.
- Closed 2 private infrastructure transactions for a total commitment of \$80,000,000.

Fiscal Year 2013 Accomplishments (continued)

- Participated in 41 depositions, represented ERS in 32 administrative appeals before the State Office of Administrative Hearings; 3 prehearing conferences and 5 district court hearings.
- Received and responded to 307 Public Information Act requests; \$165 in fees were collected as permitted under applicable rules for providing the information.
- Approved, rejected and/or reviewed 191 domestic relations orders and Transfers and Releases submitted to ERS under Chapter 804 of the Texas Government Code.
- Completed 109 requests for legal services/opinions.
- Assisted in the implementation of the required provisions of the Patient Protection and Affordable Healthcare Act and subsequent federal reconciliation bill (PPACA), and HIPAA Omnibus Rule, in conjunction with the GBP.
- Advised and assisted with the review of Requests for Proposal, Requests for Offer and Requests for Application and, if applicable, drafted and negotiated related contracts in connection with:
 - health maintenance organization services, including Medicare Advantage HMO,
 - third party administrator (TPA) of the short- and long-term disability program,
 - auditor of the GBP health and welfare programs,
 - long-term care insurance benefit services,
 - dental services providers, including a PPO provider, DHMO provider and dental discount products and services provider,
 - actuarial and consultative services,
 - compensation consulting services,
 - succession planning consulting services for the retirement program,
 - property and casualty insurance protection services for ERS,
 - electrical services related to building improvements,
 - fixed income risk measurement and monitoring tool,
 - compliance review of the TPA of the deferred compensation Texa\$aver program, and
 - investment data warehouse interfaces and reporting enhancements.
- ERS obtained favorable IRS determination letters issued by the Internal Revenue Service for the ERS plan, the Judicial Retirement System, Plan II, and for the Texa\$aver 401(k) plan. These favorable IRS determination letters covered the period February 1, 2009 through January 31, 2014.
- Reviewed and revised the HealthSelect in-area and out-of-area Master Benefit Plan documents and related Summary of Benefits and Coverage documents.
- Successfully defended ERS' ability to maintain confidentiality of member records in a suit brought against ERS and Texas Comptroller of Public Accounts in connection with an open records request.
- Advised and assisted with the successful implementation of a new pharmacy benefit manager for the self-funded Medicare Part D Employer Group Waiver Plan with a self-funded Wrap Prescription Drug Plan for Medicare-primary participants.
- Analyzed, reviewed and drafted legislation filed during the 83rd Legislative Session, and advised management regarding its application to ERS.

MAJOR FISCAL YEAR 2014 INITIATIVES

Many initiatives of the Legal Services Division will involve matters that are confidential and protected by the attorney client privilege. Legal Services plans to conduct a number of public activities in FY 2014.

- Advise ERS management and assist in reviewing and implementing applicable state legislation passed during the 83rd Regular and Special Legislative Sessions. (Strategic Direction #4)
- Advise ERS management and assist in reviewing and implementing any changes to ERS programs or contracts as a result of revisions to applicable state and federal laws and regulations. (Strategic Direction #4)
- Advise ERS management regarding the Patient Protection and Affordable Care Act and federal health care reconciliation legislation and the new HIPAA Omnibus Rule in conjunction with the Texas Employees Group Benefits Program (GBP). (Strategic Direction #2)
- Review, negotiate and/or draft private equity, real estate, hedge fund and infrastructure transactions as requested as well as contracts for services required to administer ERS and its related programs. (Strategic Direction #1)
- Advise and assist with the transition of third party disability administrator services to Aon Hewitt Absence Management LLC, including assistance with appeal matters. (Strategic Direction #2)
- Advise and assist with the transition of Evidence of Insurability (EOI) disability administrator services to Minnesota Life Insurance Company. (Strategic Direction #2)
- Advise and assist ERS management and the various divisions in connection with the drafting and negotiation of contracts and legal issues related to contract administration matters. (Strategic Direction #3)
- Represent ERS in appeals from the denial of disability retirement, insurance and health care-related benefits and in connection with ERS' assessment of sanctions, subrogation and overpayment obligations in connection with the GBP. (Strategic Direction #1 and #2)
- Improve efficiency of the retirement appeal process by preparing appeal materials in electronic format. (Strategic Direction #1)
- Approve or reject domestic relations orders and transfers and releases submitted for approval under Chapter 804 of the Texas Government Code. (Strategic Direction #1)
- Begin work with outside tax counsel to prepare for submission of new IRS determination letter requests for the ERS plan, the Judicial Retirement System of Texas, Plan II, and for the Texa\$aver 401(k) plan. These requests will cover the period February 1, 2014 to January 31, 2019, and will be part of the IRS Cycle C filing period. (Strategic Direction #1)
- Review and investigation of applicable disability retirement files and development of additional procedures to ensure continued eligibility for benefits. (Strategic Direction #1)
- Research and coordinate requests under the Public Information Act. (Strategic Direction #4)
- Advise and assist the Investments Division with the following: (Strategic Direction #1)
 - development of an infrastructure investment policy, including development of an infrastructure business diligence process and Legal's development of the legal diligence process,
 - researching and evaluating the possible implementation of a derivatives program,
 - enhancing risk management processes and evaluation of risk management technology,
 - new Board-approved asset allocations,
 - support of new initiatives, and
 - support in connection with its data warehouse initiative.

Fiscal Year 2014 Initiatives (continued)

- Advise the Information Systems Division regarding the bring-your-own-device program. (Strategic Direction #4)
- Advise and assist the Benefit Contracts Division with the development and/or review of Requests for Proposals, Requests for Applications and Requests for Information and the drafting and negotiation of related contracts for: (Strategic Direction #2)
 - health maintenance organization services,
 - long-term care,
 - dental services,
 - Texa\$aver funds, and
 - other benefits-related services or coverage.
- Assist the Customer Benefits Division with the development and/or review of Request for Proposals and the drafting and negotiation of related contract for optimization of ERS' hosted automated call distributor and integrated voice response (ACD/IVR) contact center solution. (Strategic Direction #4)
- Publish updated 2013 ERS Laws and Rules books. (Strategic Direction #4)
- Advise and assist divisions as necessary with the statutorily required review of ERS rules. (Strategic Direction #4)
- Update and revise Chapter 81 of the ERS rules. (Strategic Direction #2)
- Coordinate or conduct training regarding the Public Information Act, Ethics and HIPAA. (Strategic Direction #2 and #4)
- Advise and assist in an interim review of the LECOS fund and preparation of documents seeking IRS approval of a separate LECOS fund. (Strategic Direction #1)
- Evaluation and possible upgrade of Legal's case management software. (Strategic Direction #4)
- Advise and assist with implementation of new actuarial factor tables and associated rule amendments for additional retirement plan changes. (Strategic Direction #1)
- Advise and assist the Executive Office with (Strategic Direction #4)
 - enterprise risk management assessments,
 - agency strategic plan development, and
 - updates and testing of business continuity plan.
- Advise and assist the Benefit Contracts Division with improvement of business intelligence data warehouse reporting and transfer of knowledge. (Strategic Direction #2 & #4)
- Advise and assist the Internal Audit Division with external financial audit and development of FY14 and FY15 ERS internal audit plans. (Strategic Direction #4)
- Advise and assist the Information Systems Division with implementation of PeopleSoft security redesign and other information security measures. (Strategic Direction #4)
- Advise and assist the Communications and Research Division with implementation of population of centralized online research library. (Strategic Direction #4)

LEGAL SERVICES FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 1,840,181	\$ 1,552,174	\$ 1,909,642	\$357,468	Note 17
Other Salary Costs ¹	367,700	328,948	422,283	93,335	
Classified Salaries - Incent. Comp. Plan ²			151,267	151,267	
Computer System Services	0	0	30,000	30,000	Note 6 Note 12
Legal Services (Outside) ³	815,000	877,635	1,914,500	1,036,865	
Professional Services - Edu.	2,300	2,300	2,300	0	
Professional Services - Other	0	15,380	0	(15,380)	
Travel	5,200	5,200	5,200	0	
Supplies & Materials	75	150	75	(75)	
Reproduction Services	150	150	150	0	
Employee Training	2,645	2,645	3,445	800	
Subscriptions & Electronic Comms	29,352	29,352	27,353	(1,999)	
Membership Fees	3,485	3,485	3,750	265	
Classified Advertising	0	75	0	(75)	
Miscellaneous Expenses	11,725	11,725	11,725	0	
Other Contracted Services	900	40,000	900	(39,100)	
Equipment & Furniture	10	225	15	(210)	
Books/Reference Materials	1,650	1,650	250	(1,400)	
Computer Equipment	0	6,660	0	(6,660)	
Total Budget	\$ 3,080,373	\$ 2,877,754	\$ 4,482,855	\$1,605,101	
Full Time Equivalent Staff	17	16	17	1	

EXPLANATIONS OF VARIANCE

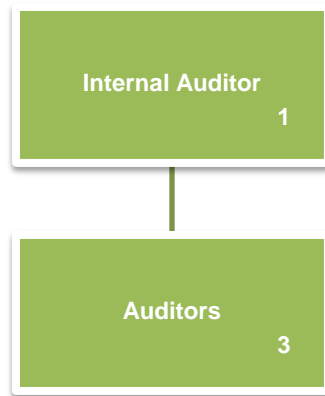
¹Classified Salaries and Other Salary Costs – One new attorney position will be added to support the investments program. The FY 2014 Approved Budget also assumes a higher staffing rate than experienced in FY 2013.

²Classified Salaries – Incentive Compensation Plan – Incentive Compensation Plan payout is assumed based on positive performance and exceeding benchmarks in FY 2013 for Legal staff whose work was related to the investment program.

³Legal Services (Outside) – The increase is due to a projected increase in the amount of Private Equity, Real Estate and Hedge Fund deals in order to attain the goal of having the ERS total systems assets be in a range between 8-10%. The number and complexity of alternative investment deals has increased.

INTERNAL AUDIT

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTES: 4

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Completed 5 audits on the FY 2013 ERS Internal Audit Plan.
- Conducted compliance monitoring on the Investment Program.
- Coordinated the FY 2012 Financial Audit with the State Auditor's Office.
- Implemented Co-sourced Internal Audit services.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Execute the FY 2014 Internal Audit Plan with co-source vendors as Approved by Board.
- Conduct Investment compliance monitoring.
- Coordinate external financial opinion audit of ERS to minimize impact on operations.
- Coordinate quality assurance review of the Internal Audit Division.
- Incorporate audit management software (TeamMate) as part of audit procedures to increase process efficiency and compliance with standards.
- Identify opportunities for greater use of data analytics to improve focus and effectiveness of audit engagements.
- Incorporate procedures to track and monitor productivity.
- Develop FY 2015 Internal Audit Plan for Board approval.

All the above Internal Audit Division initiatives support Strategic Direction #4.

INTERNAL AUDIT FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	261,768	195,212	335,129	139,917	
Other Salary Costs ¹	55,723	41,440	80,804	39,364	Note 17
Financial Audit Services	145,874	145,874	146,300	426	Note 8
Audit Services - Other	220,500	243,500	147,677	(95,823)	Note 16
Consulting Services	0	0	0	0	
Professional Services - Edu.	60	160	120	(40)	Note 12
Travel	4,000	4,000	4,000	0	
Supplies & Materials	100	100	100	0	
Employee Training	2,500	2,400	3,250	850	
Subscriptions and Electronic Communications	20,855	21,022	21,000	(22)	
Membership Fees	1,240	1,240	1,310	70	
Contracted Temps & Data Entry	0	18,493	0	(18,493)	
Classified Advertising	350	350	250	(100)	
Miscellaneous Expenses	40	40	120	80	
Equipment & Furniture	300	300	200	(100)	
Books/Reference Materials	300	300	500	200	
Computer Software	0	5,000	0	(5,000)	
Computer Equipment	0	1,240	0	(1,240)	
Total Budget	\$ 713,610	\$ 680,671	\$ 740,760	\$ 60,089	
Full Time Equivalent Staff	3	3	4	1	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – One new position will be added to support the audit program. Additional salary costs will be partially offset by a reduction in co-source audit services.

GOVERNMENTAL RELATIONS

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTES: 3

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Passage of the ERS omnibus bill, Senate Bill 1459. The bill will have a positive impact on the financial status of the ERS trust fund, retirement program, and group benefits program, as well as a number of administrative improvements. Passage involved:
 - meeting with ERS staff to develop initial list of legislative suggestions,
 - drafting bill and managing edits,
 - meeting with House and Senate sponsors, legislative staff, and stakeholders to discuss provisions of the bill,
 - meeting with system actuaries and finance staff to determine fiscal impact, and
 - providing appropriate background material on the bill.
- Successfully worked with House Appropriations and Senate Finance leadership to increase funding to the retirement program and maintain funding for the health insurance program.
- Distributed ERS Retirement and Insurance studies to legislature, and provided background and explanations.
- Successfully worked with the Chair, members, and staff of the new House Pensions committee.
- Provided legislative briefings and maintained open communication with key state employee and retiree associations.
- Served as the agency's liaison for all ERS related legislation responding to inquiries from the House and Senate members and their staff, the Governor's office, the Lt. Governor's office, the Speaker's office, oversight agencies, association groups, and ERS staff.
- Co-coordinated the Legislative Analysis Work Group (LAG) process for the 83rd Legislative Session:
 - 323 bills tracked,
 - 142 bills formally analyzed, and
 - 10 bills required actuarial cost impacts by consulting actuaries, including multiple versions of SB 1459 as benefit design changes were negotiated.

Fiscal Year 2013 Accomplishments (continued)

- Worked with the Finance Division and actuaries to prepare fiscal notes on Approved legislation.
- Coordinated the process for ERS' Legislative Appropriations Request with the Legislative Budget Board, Senate Finance, the House Appropriations Committee, system actuaries and internal staff.
- Initiated the agency's legislative implementation efforts.
- Planned and hosted the Capitol Health Fair for legislators and staffers providing various health screenings and showcasing wellness tools and resources offered by ERS programs.
- Assisted the State Agency Wellness Director in planning the annual State Agency Wellness Conference.
- Worked with legislators and staffers on individual constituent issues and concerns.
- Organized and documented monthly ERS Policy Group meetings, providing written decisions to the Executive Director for approval.
- Worked with ERS staff to identify and draft Board of Trustee Rules.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Conduct the legislatively required interim studies on the LECOS retirement and accounting (Strategic Direction #1) and support the study on Group Insurance Program options (Strategic Direction #2) work with other divisions, consultants, actuaries, employees/retiree associations, and the legislative members.
- Keep legislators and staff updated on the impact of retirement funding (Strategic Direction #1), insurance funding (Strategic Direction #2), and implementation of legislation (Strategic Direction #3) affecting ERS from the 83rd Legislative Session.
- Work with newly appointed actuaries to understand ERS statutes, and to support interim projects. (Strategic Direction #4)
- Continue to coordinate implementation plans for legislative changes to ERS programs resulting from the legislative session. (Strategic Direction #4)
- Coordinate information requests from interim legislative committees that deal with ERS issues. (Strategic Direction #3)
- Lead the ERS Policy Committee and coordinate approval of new policies with the Executive Office. (Strategic Direction #4)
- Work with the Division Directors to draft new Board Rules. (Strategic Direction #4)
- Work with the State Wellness Director and the State Worksite Wellness Advisory Board to promote worksite wellness initiatives at state agencies. (Strategic Directions #2 and #3)
- Work with insurance TPA's wellness team to select pilot agency locations for strategic worksite wellness programs.
- Continue to work with legislators and their staff as well as ERS members and retirees on various constituent issues. (Strategic Direction #3)

GOVERNMENTAL RELATIONS FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries	\$ 449,781	\$ 347,820	\$ 351,053	\$ 3,233	
Other Salary Costs	98,169	70,800	82,264	11,464	Note 17
Professional Services - Edu.	100	100	100	0	Note 12
Travel	2,850	2,850	2,850	0	
Supplies & Materials	100	100	100	0	
Employee Training	1,625	1,625	1,625	0	
Subscriptions and Electronic Communications	4,000	3,864	4,000	136	
Membership Fees	0	200	175	(25)	
Computer Equipment	0	854	0	(854)	
Total Budget	\$ 556,625	\$ 428,213	\$ 442,167	\$ 13,954	
Full Time Equivalent Staff	4	3	3	0	

EXPLANATIONS OF VARIANCE

There are no significant variances.

HUMAN RESOURCES

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 4

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Researched companies/vendors with experience in developing a succession plan for critical staff.
- Initiated and completed all phases of a Request for Proposal for professional services to develop a succession plan. A management decision was made to develop a succession plan internally.
- Worked with division leadership to address training opportunities identified by the Survey of Employee Engagement. Leveraged skills and talents of ERS staff through employee and organizational development.
- Researched companies/vendors with experience in conducting a comprehensive compensation study for Investments staff. Initiated and completed all phases of a Request for Proposal for professional services for the compensation study.
- Researched and procured services to develop metrics for the incentive compensation plan for non-investments staff. A management decision was made to message and rebrand the existing One-Time Merit payment policy.
- Conducted extensive research and analysis of compensation data.
- Coordinated the State of the ERS.
- Assisted the ERS Board of Trustees in the recruitment and hiring of the Internal Auditor.
- Coordinated and hosted the 2013 Longevity Awards.
- Assisted the State Auditor's Office with the gathering of data for the Incentive Compensation Audit.
- Conducted extensive research on a request from the Investments Division to hire an employee in India.
- Coordinated an external and independent review of the Internal Audit Division.
- Supported divisions to achieve greater staffing:
 - posted 60 job vacancies,
 - screened 648 State applications,
 - processed 283 personnel actions,
 - processed 52 new hires and 30 contract temporary workers, and
 - processed 19 separations.

Fiscal Year 2013 Accomplishments (continued)

- Administered internal training for ERS staff and 52 training sessions were scheduled throughout the year:
 - Understanding Individual and Organizational Change,
 - Communicating for Results: You don't have to be right to get it right,
 - Personal and Professional Resilience,
 - Business Writing: Better Business Correspondence,
 - Both Sides of the Coin: How social media can advance your career without it costing your job,
 - Managing Holiday Stress,
 - Understanding the ERS Records and Retention Schedule,
 - Ethics Training,
 - The Basics of the Public Information Act,
 - Write Right,
 - Various Microsoft Applications,
 - CPR and AED Training, and
 - On Point and Positive: Applying ERS Message Maps to your job.
- Sourced an Executive Assistant for the Executive Office.
- Arranged 2013 Summer Internships.
- Accounted all leave records for the GetFit Challenge.
- Conducted 27 HR Well-Check sessions:
 - Benefit Contracts,
 - Finance,
 - Information Systems,
 - Investments, and
 - Legal Services.
- Revised 4 policies:
 - Salary Administration,
 - Standards of Conduct: Criminal History Checks,
 - Family Medical Leave, and
 - Bereavement Leave.
- Handled 16 Employee Relations matters.
- Responded to 5 unemployment benefits claims and appeals.
- Added seven new telecommuters.
- Added 12 employees to the Compressed Workweek Schedule.
- Staff spent approximately 56 hours on the PeopleSoft Leave Accounting Software Upgrade.
- Staff spent approximately 30+ hours cleaning up files from the S-drive.
- Participated in various salary surveys.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Address training opportunities identified in SEE and Succession Planning.
- Conduct the Survey of Employee Engagement (SEE).
- Monitor and evaluate development plans for succession plan candidates.
- Review and access our core processes for efficiency and improve on them.
- Review and enhance the HRIS reporting opportunities.
- Leverage skills and talents of ERS staff through employee and organizational development.

All the above Human Resources initiatives support Strategic Direction #4.

HUMAN RESOURCES FISCAL YEAR 2014 BUDGET

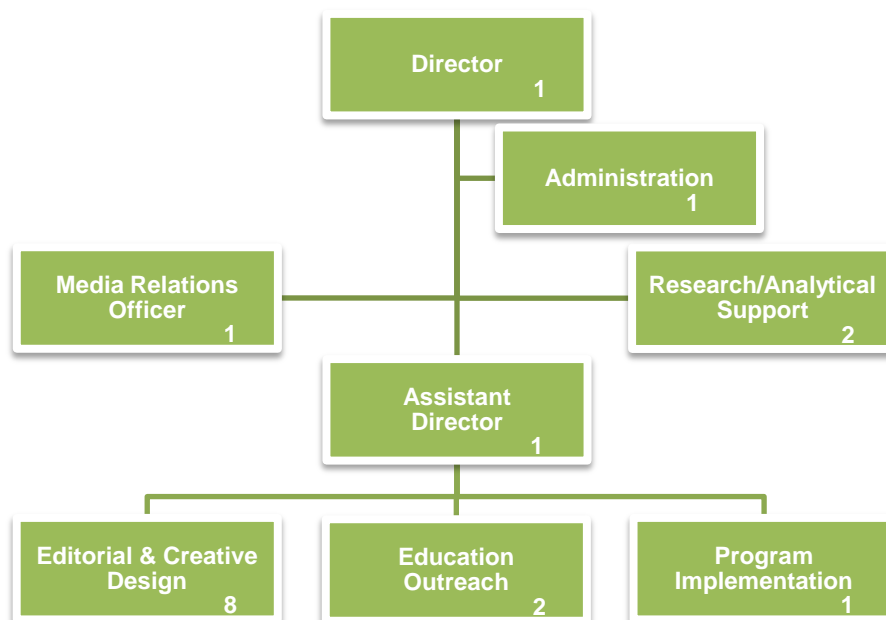
	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries	\$ 293,339	\$ 289,470	\$ 317,110	\$ 27,640	
Other Salary Costs	79,429	80,528	86,359	5,831	Note 17
Consulting Services	20,000	0	0	0	Note 15
Professional Services - Edu.	51,000	51,000	43,000	(8,000)	Note 12
Professional Services - Other	36,300	16,300	8,500	(7,800)	Note 14
Travel	2,500	1,320	6,500	5,180	
Supplies & Materials	500	500	750	250	
Employee Training	4,690	4,690	8,790	4,100	
Subscriptions and Electronic Communications	2,195	1,695	1,215	(480)	
Membership Fees	310	310	430	120	
Contract Temps & Data Entry	0		0	0	
Classified Advertising	2,000	1,500	0	(1,500)	
Miscellaneous Expenses	6,000	6,000	7,500	1,500	Note 11
Equipment & Furniture	300	300	300	0	
Books/Reference Materials	500	500	500	0	
Computer Equipment	0	0	0	0	
Total Budget	\$ 499,063	\$ 454,113	\$ 480,954	\$ 26,841	
Full Time Equivalent Staff	4	4	4	0	

EXPLANATIONS OF VARIANCE

There are no significant variances.

COMMUNICATIONS & RESEARCH

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 17

FISCAL YEAR 2013 ACCOMPLISHMENTS

Published the Interim Benefits Studies, supported education about the findings, including conference presentations and numerous briefings.

Supported legislative session and updated communications about legislative changes:

- Tracked 323 bills during the 83rd legislative session, coordinated and reviewed bill analysis for 142 bills, supported the internal cost estimate production process and reviewed 116 cost estimates.
- Coordinated the Legislative Analysis Group (LAG), trained users on the legislation tracking system.
- Responded to legislative related inquiries.
- Summarized legislative information for board members, system members and public. Updated website with legislative information.
- Testified at hearings.
- Created numerous custom presentations, handouts, testimony, briefing documents, follow-up letters.
- Attended/monitored hearings and developed follow-up plans.
- Provided expertise and information to Legislative Budget Board and House Research Organization.

Fiscal Year 2013 Accomplishments (continued)

Conducted communications campaign to explain new HealthSelect Medicare Rx Program:

- Held over 50 enrollment sessions,
- Created new materials and new branding, and
- Created custom program website for enrollees.

Reviewed external website for usability and functionality improvements. Enhanced and documented internal processes for website content review and updates.

Worked with IS to eliminate duplication of printed retiree newsletters and electronic newsletter distribution.

Conducted communications campaigns for:

- Annual Enrollment,
- implementation of new administrator for the disability program, including creating new branding (Texas Income Protection Plan) and marketing/educational campaign,
- the Board of Trustee election,
- Continued support of the Health Select TPA transition:
 - approved 142 communication pieces, and
 - supported legislative communications about the transition.

Coordinated Data Analysis Group which coordinates data requests coming into ERS and researched and standardized responses.

Created Key Document Index for easy retrieval of important agency data and policy documents. Conducted enhanced benchmarking research, continued to build relationships with other public sector entities on the insurance benefit design and best practices.

Promoted and supported seven Solution Sessions, created website, recorded, posted and archived presentations, provided subject matter expert expertise to attend and analyze proposals for further action.

Supported the launch of two new Texa\$aver funds and conducted campaign to increase contributions (3-legged stool).

Assisted in facilitation of and provided subject matter expertise throughout the asset allocation study.

Produced the Annual Cost Containment Report and provided supporting material.

Updated key agency messaging and trained staff.

Formalized editorial production/resource allocation processes and communicated process to other divisions. Completed 341 job requests, 38% were planned and 62% were unplanned. Worked with IT to automate request form.

Created best practice documents, checklists and templates for program implementation communications, website maintenance, and board meetings.

Conducted 155 events with approximately 12,000 attendees.

Fiscal Year 2013 Accomplishments (continued)

Communication touchpoints – publications, emails, facebook GovDelivery

- 622,923 total subscriptions (29% increase from last year),
- 337,502 total subscribers (9% increase from last year),
- 184 bulletins sent between 6/1/2013-5/31/2013,
- 6,366,429 total recipients,
- 1,274,693 emails opened (20% open rate),
- 655,023 links clicked (10%).

Facebook

- 2,249 total likes.

Videos (YouTube)

- 67 videos uploaded to YouTube,
- 59,690 views through our YouTube channel (58,548 minutes watched).

Website Analytics

- 383,006 Visitors (Jan 1-May 31),
- Over three million page views.

Community Group

- Benefit Coordinator Community Group members: 1,647 members.

Streamlined benefits coordinator registration process and worked to improve the group site functionality.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Provide governance reporting.
- Populate centralized online research library.
- Implement enhancements from website usability review.
- Develop communication strategy, annual plan and editorial calendar for key agency messages, publications.
- Improve ability to allocate resources and turnaround times by improving compliance with job request form process and identifying and reducing unplanned projects.
- Follow-up survey to benchmark employee perceptions and engagement to gauge effectiveness of communication efforts.
- Continued outreach to private and public sector entities to benchmark ERS programs and share best practices.
- Improve member's ability to plan for retirement by integrating defined benefit information into the Texa\$aver advisory service.
- Review and formalize policies, checklists and operational policies for tasks and duties.
- Organize centralized photo resource library for agency staff.
- Streamline and enhance functionality of internal online workspaces.
- Review video streaming and social media strategy.

All the above initiatives support Strategic Direction #3.

COMMUNICATIONS AND RESEARCH FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 1,111,365	\$ 1,036,841	\$ 1,247,411	\$ 210,570	
Other Salary Costs ¹	285,264	260,034	324,091	64,057	Note 17
Computer System Services	134,840	110,000	90,584	(19,416)	Note 4
Professional Services - Edu.	0	0	0	0	
Professional Services - Other	119,000	75,000	75,000	0	Note 20
Travel	41,450	41,450	52,600	11,150	
Supplies & Materials	500	0	500	500	
Rent on Office Equipment	0	0	0	0	
Rental of Space	12,500	12,500	18,200	5,700	
Reproduction Services	36,000	36,000	36,000	0	
Employee Training	12,000	24,000	23,994	(6)	
Subscriptions and Electronic Communications	7,310	7,310	7,275	(35)	
Membership Fees	10,235	9,580	9,785	205	
Contract Temps & Data Entry	5,000	5,000	47,000	42,000	
Classified Advertising	500	250	500	250	
Miscellaneous Expenses	1,500	100	3,500	3,400	
Other Contracted Services	24,000	24,000	24,750	750	Note 19
Equipment & Furniture	2,000	1,000	3,000	2,000	
Books/Reference Materials	600	1,263	900	(363)	
Computer Equipment	600	6,158	600	(5,558)	
Total Budget	\$ 1,804,664	\$ 1,650,486	\$ 1,965,690	\$ 315,204	
Full Time Equivalent Staff	16	16	17	1	

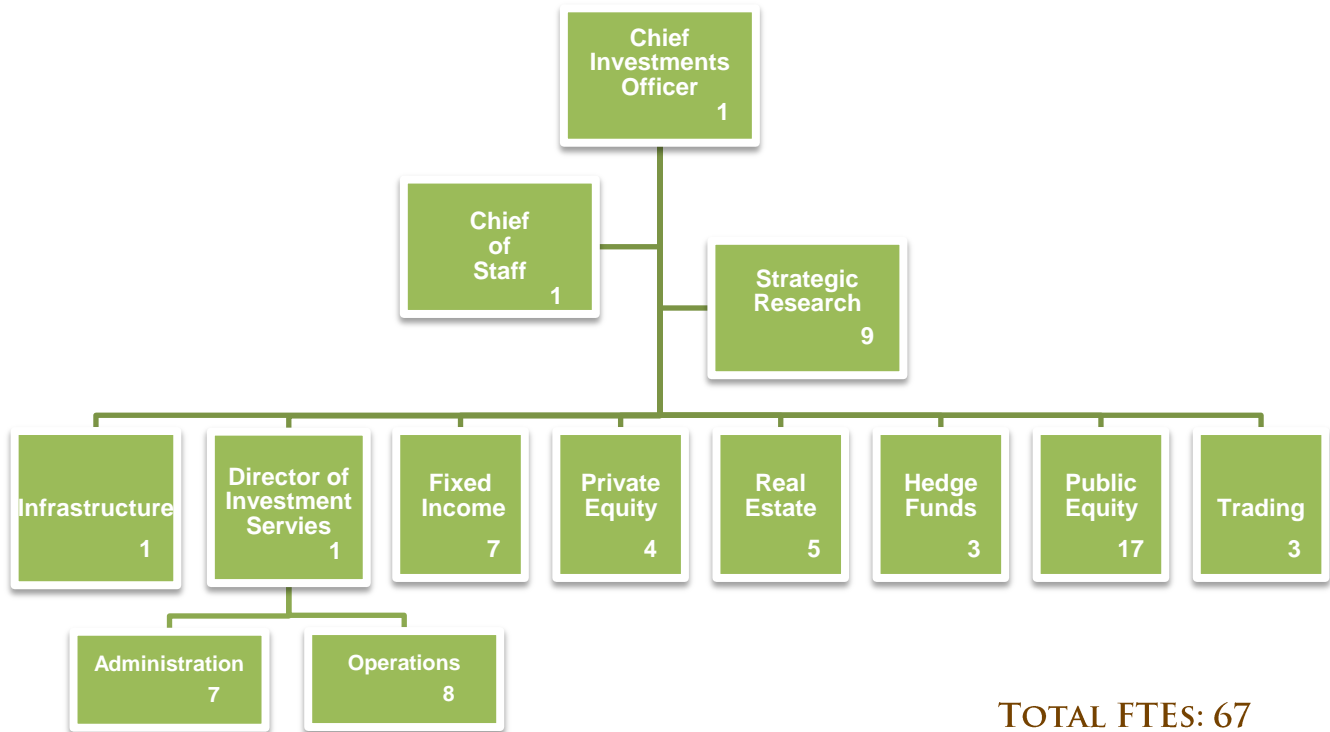
EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – One new position will be added to support increased communications workload.



INVESTMENTS

ORGANIZATIONAL CHART – FISCAL YEAR 2014



FISCAL YEAR 2013 ACCOMPLISHMENTS

- Completed the FY2012-FY 2013 Asset/Liability Study.
- Began the transition to new asset allocation targets as determined by the FY2012-FY 2013 Asset/Liability Study.
- Continued to optimize the mix of internally managed and externally advised portfolios.
- Established a policies and procedures program for equity, fixed-income and infrastructure asset classes.
- Increased liquidity of transition portion of portfolio through a \$1.3 billion exchange of investment grade holdings for Fixed Income Exchange Traded Funds (ETFs) to tactically implement Fixed Income portfolio.
- Funded Emerging Markets advisor.
- Furthered branding and education about ERS and ERS' investment program through conference sponsorships and presentations such as Emerging Managers for Alternatives, Texas Hedge Fund Conference, Institutional Investor, Buyouts Texas Conference, Connex International, Texas Systematic Risk Conclave, SEO Alternative Conference, Roundtable for Public and Taft Hartley Plans, Opal Financial Group Emerging Market Summit West, CalPERS Emerging Manager Forum, TxPERS Annual Conference, Women in Private Equity Conference, Pension Bridge Conference, Alternative Investment Management Symposium, IMN Conference, PERE Investors' Council, and aiCIO Conference.
- Committed \$402 million to Private Equity through June 30, 2013, and closed on 8 funds and 3 co-investments.
- Committed \$324 million to Private Real Estate through June 30, 2013, and closed on 6 deals.
- Committed \$240 million to Hedge Funds through June 30, 2013, and closed on 6 investments.
- Committed \$80 million to Infrastructure and closed on 2 deals as of June 30, 2013.

Fiscal Year 2013 Accomplishments (continued):

- Completed implementation of private markets software.
- Implemented new risk management measurement and monitoring tools.
- Reorganized staff for new Fixed Income allocation.
- Implemented Yield Book and Bloomberg PORT (Portfolio Optimization Reporting Tool) for a Fixed Income risk management system.
- Developed and facilitated legislative communication on Investments special projects.
- Completed SharePoint conversion.
- Filled vacancies for Chief Investment Officer, 1 Infrastructure Portfolio Manager, 2 Hedge Fund Portfolio Positions, 2 Real Estate Portfolio Managers, 1 Executive Assistant, 1 Administrative Assistant, 1 International Analyst, 1 Investment Operations Supervisor, 1 Performance Analyst, 1 Trader, and 2 Investment Operations Specialists.
- Reorganized equity team structure to improve efficiency, professional development, and workload distribution.
- Reorganized Investment Division for operational efficiencies.
- Completed compensation study and related employee communications.
- Initiated work on development of career path program for Investments employees.
- Increased intra-agency and internal division communication.
- Produced fiscal year to date through July 31, 2013, gross rate of return for the pension fund of 11.34% compared to the benchmark return of 10.94%.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Accelerate transition to new asset allocation.
- Enhance risk management processes.
- Evaluate risk management technology across asset classes.
- Research and evaluate implementation of derivatives program.
- Enhance middle and back office system solutions.
- Leverage internal investment resources to explore & implement changes to Texa\$aver fund offerings (collaboration with Benefit Contracts).
- Support Legislation Implementation.
- Research and identify best practices for investment of the trust.
- Assess current and future savings received by diligent negotiation of best economic deal terms.
- Further develop Investments Division career path development, communications, succession planning, overall team development, and management training.
- Collaborate with Information Systems to develop agency-wide video conferencing initiative.
- Collaborate with agency Operations Support for efficient space utilization to provide the agency with additional meeting spaces.
- Rebrand the emerging managers program.
- Reach full allocation of Absolute Return Portfolio (Hedge Funds).
- Explore and implement new equity, fixed income, and/or real estate hedge fund strategies.
- Educate external parties about ERS investment program and the overall agency through conference sponsorships, speaking engagements and strategic relationships (Branding).
- Develop internship program, including outreach to diversity (minority/women) candidates.
- Evaluate investing processes (flow from investment idea to execution) for best practices and to identify opportunities for efficiencies.
- Evaluate division business processes for best practices and to identify opportunities for efficiencies.
- Sponsor educational in-house conferences and promote strategic outreach to external stakeholders.

All the above Investments initiatives support Strategic Direction #1.

INVESTMENTS FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 7,230,218	\$ 6,411,084	\$ 7,989,681	\$ 1,578,597	
Classified Salaries - ICP ²	1,253,361	1,341,455	2,384,528	1,043,073	
Other Salary Costs ¹	1,313,391	1,328,715	1,636,976	308,261	Note 17
Investment Advisory Fee	26,000	25,800	30,500	4,700	Note 1
Investment Consultants ³	2,576,056	2,286,056	1,978,474	(307,582)	Note 3
Computer System Services	0	0	30,000	30,000	Note 4
Consulting Services	50,000	30,000	0	(30,000)	Note 15
Professional Services - Edu.	5,000	5,000	6,000	1,000	Note 12
Professional Services - Other	5,000	25,000	25,000	0	
Architectural Services	0	5,000	0	(5,000)	
Travel	498,750	450,000	547,750	97,750	
Supplies & Materials	1,000	500	500	0	
Telecommunications	4,800	4,800	4,800	0	
Computer	62,500	62,500	62,500	0	
Rent on Computer SW & Equipt.	2,000	0	0	0	
Rental of Space	0	0	0	0	
Employee Training	40,000	40,000	50,000	10,000	
Subscriptions & Elec. Comm. ⁴	4,872,012	4,555,240	5,454,206	898,966	Note 21
Membership Fees	29,080	60,240	63,465	3,225	
Contract Temps & Data Entry	30,000	70,000	60,000	(10,000)	
Classified Advertising	2,000	3,500	4,000	500	
Miscellaneous Expenses	8,450	4,271	4,271	0	
Other Contracted Services	4,500	3,500	4,000	500	
Investment Banking	925,000	925,000	925,000	0	Note 22
Equipment & Furniture	2,000	2,000	2,000	0	
Books/Reference Materials	2,000	5,000	5,000	0	
Computer Software	124,675	181,453	190,778	9,325	
Computer Equipment	11,900	39,360	43,002	3,642	
Telecommunications Equipment	800	800	1,000	200	
Building Improvements		65,000		0	
Total Budget	\$ 19,080,493	\$ 17,931,274	\$ 21,503,431	\$ 3,572,157	
Full Time Equivalent Staff	61	61	67	6	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The increase is due to six additional Investment positions to support the new asset allocation approved by the board of trustees. The asset classes of fixed income, infrastructure, and private equity added portfolio managers. Investment Operations added an assistant and a financial analyst. The strategic research section also added an analyst. The FY 2014 Approved Budget also assumes a higher staffing rate than experienced in FY 2013.

²Incentive Compensation – The assumed Incentive Compensation Plan payout is based on positive performance and achieving policy benchmarks in FY 2013, for payment in FY 2014. The third-year payout for 2011 and second-year payout for 2012 performance is also included in the FY 2014 Approved Budget.

³Investment Consultants – Decrease is due to a renegotiated contract with ERS' Private Equity consultant that represented a savings of \$460,000 in the FY 2014 Budget.

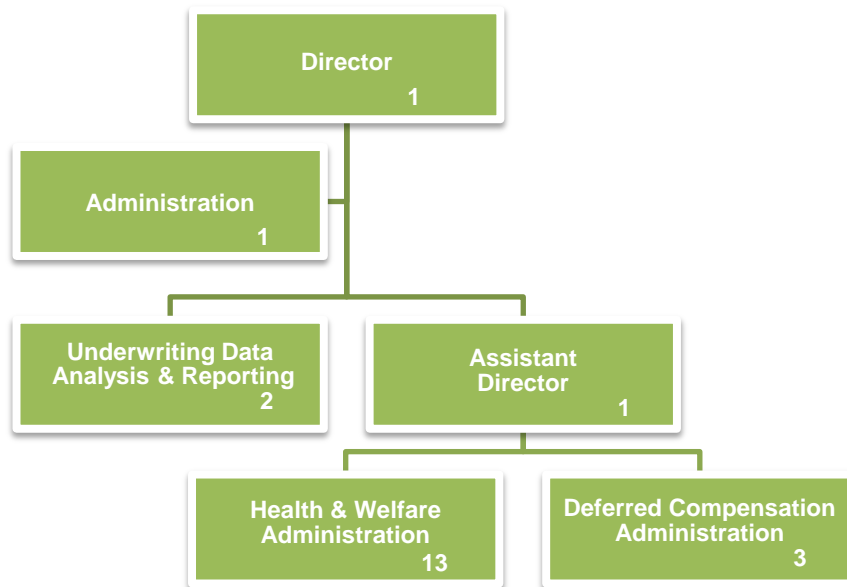
⁴Subscriptions & Electronic Communication – The increase is a result of the following:

- Bloomberg: 6-7 new workstations added for additional staff.
- FactSet: 5 additional workstations + a 3% escalator.
- High Yield Research Tool - The increase in High Yield exposure with implementation of the new asset class.
- The Investment Accounting Database Warehouse to be developed in FY 2014. It will be used by Investment Operations and Investment Accounting for reconciliation and reporting purposes.
- ISS Class Action is used for verification of custodian class action filings.
- ERS switched from Blackrock to Yield Book. This change results in a \$350,000 annual savings starting in FY 2014, the first full year of the Yield Book contract.
- eFront – Additional licensing and maintenance fees



BENEFIT CONTRACTS

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 21

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Developed and Published 8 bid solicitations:
 - GBP Audit RFP (Published 12/13/13),
 - Deferred Compensation Compliance Audit RFP (republished 3/14/13),
 - Disability RFP (Re-published 10/11/2012),
 - Long Term Care RFP (published 5/2/13),
 - Dental and Dental Discount RFP (published 5/31/2013),
 - HMO FY 14 RFA (published 1/3/13),
 - MA HMO FY 14 RFA (published 12/13/12), and
 - International Fund RFI (published 12/6/12).
- Milestone: Texa\$aver Program has assets totaling over \$2.1 billion.
- Milestone: Roth contributions are included in over 1,500 accounts with assets totaling \$3.3 million.
- Implemented the Real Asset and Short Term Government Fund into the Core Fund Line up with combined assets totaling \$1.3 million.
- Initiated Self-Initiated Auto Escalation feature for both plans: 128 participants in the 401(k) plan and 21 participants in the 457 plan have taken advantage of this option.
- Manage increasing volume of grievance appeals- up by 146% year to date.
- Implement transition of disability administrator from Dearborn National to Aon Hewitt.
- Implement transition of Medicare-eligible retirees prescription benefit from the Retiree Drug Subsidy (RDS) program to an Employer Group Waiver Plan plus Wrap administered by SilverScript Insurance, a subsidiary of CVS/Caremark.
- Implemented online Evidence of Insurability process for Life and Disability products.
- Oversaw and Facilitated Implementation of additional Affordable Care Act requirements.

Fiscal Year 2013 Accomplishments (continued)

- Engaged in various activities to increase enrollment in the Medicare Advantage plan from 60% to 65%.
- Completed post-implementation enhancements to the HealthSelect program.
- Implemented a contract to audit participation in the Retiree Drug Subsidy program.
- Retiree Drug Subsidy Program: Collected a total of \$12,887,384.16 from RDS Subsidy program during the four months the program was utilized in FY 2013.
- Added new Provider Group to Patient Centered Medical Homes.
- Participated in an audit of the Early Retiree Reinsurance (ERRP) program.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Bid, select and implement Dental Provider(s) for PPO, DHMO, and Dental Discount plan.
- Issue Request for Proposals (RFQs) for International Fund and Large Cap Funds for Texa\$aver.
- Implement Accountable Practice Models with Third Party Administrators.
- Bid, select and implement Long-Term Care (LTC) Program Administrator.
- Complete Retiree Drug Subsidy audit.
- Improve Business Intelligence Data Warehouse Reporting and transfer of knowledge.
- Evaluate Medicare Advantage program enrollment and resulting savings.
- Evaluate EGWP + Wrap Program for savings.
- Evaluate HealthSelect TPA cost containment strategies.
- Continue to analyze costs associated with bariatric surgery coverage and compare to reduced claim costs for related medical conditions.
- Evaluate the scope of incorporating % contributions to the Texa\$aver 457 Plan.
- Evaluate the ability to have unutilized TexFlex contributions revert to Texa\$aver contribution in lieu of having these tax-deferred contributions forfeited under the 'use it or lose it' provision.
- Integrate Defined Benefit information on both the Texa\$aver website (www.texasaver.com) and Texa\$aver quarterly statements so that participants have a more holistic view of their retirement savings.
- Develop a Risk Assessment strategy for the division.
- Scanning of the Social Security files.
- Assess the current Sharepoint architecture deployed for Benefit Contracts and work towards defining collaborative workspaces for the divisional work groups (Deferred Comp., Account Managers, Social Security, Grievance, UDAR, Divisional Management).
- Assess PCHM new provider groups.
- Host the 10-State H&W roundtable conference.
- Develop and Lead a 12-State DC roundtable conference.
- Promote operational awareness initiatives for staff managing GBP and DC programs.

All the above initiatives support Strategic Direction #2.

BENEFIT CONTRACTS FISCAL YEAR 2014 BUDGET

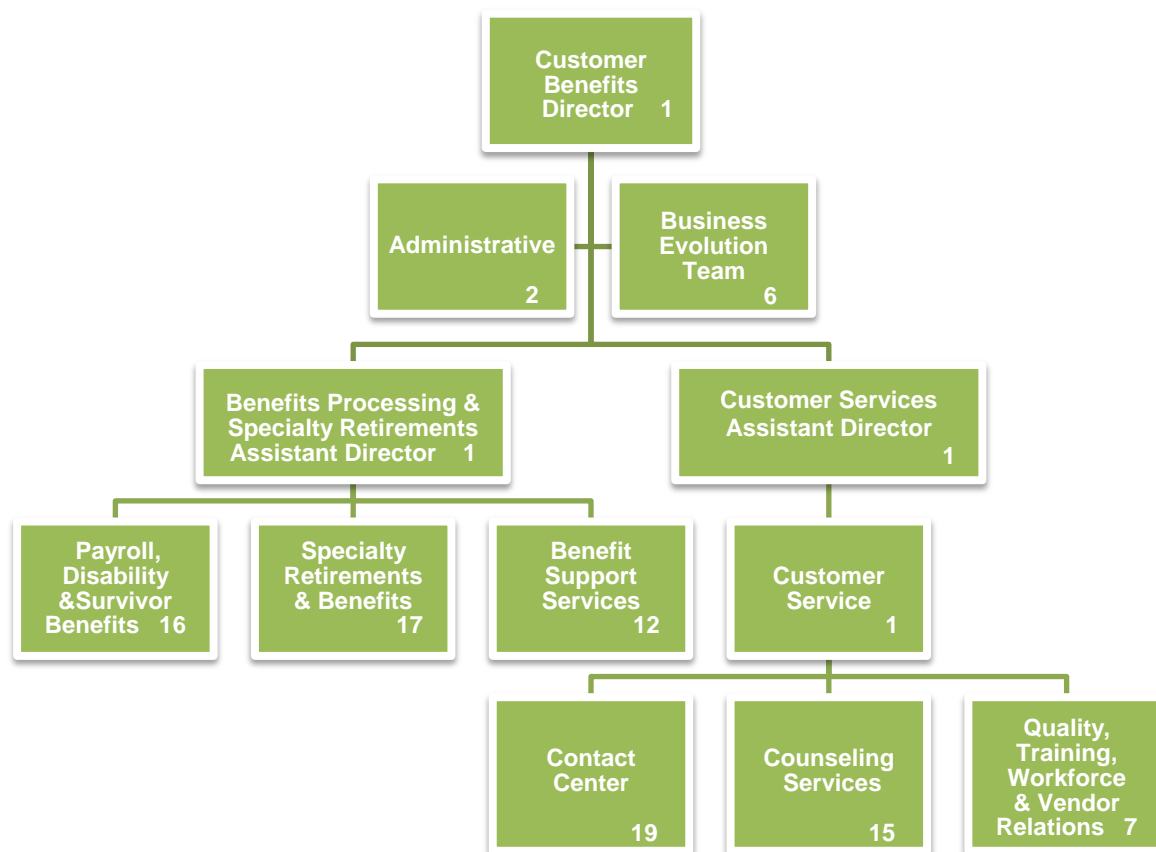
	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 1,441,610	\$ 1,296,692	\$ 1,505,393	\$ 208,701	
Other Salary Costs ¹	350,877	317,190	377,210	60,020	Note 17
Computer System Services	0	20,000	0	(20,000)	
Actuarial Services	840,000	600,000	600,000	0	Note 5
Legal Services (Outside)	8,000	0	20,000	20,000	Note 6
Insurance Audit Services	480,000	462,500	400,000	(62,500)	Note 9
Audit Services - Other	258,000	95,000	80,000	(15,000)	Note 9
Consulting Services	0	22,500	44,000	21,500	
Professional Services - Edu.	1,200	1,200	1,200	0	Note 12
Professional Services - Other	0	0	0	0	
Travel	25,390	20,000	27,950	7,950	
Supplies & Materials	750	750	750	0	
Employee Training	17,345	12,000	30,820	18,820	
Subscriptions and Electronic Communications	1,299	1,299	2,099	800	
Membership Fees	5,750	5,750	5,750	0	
Contracted Temp. & Data Entry	0	18,000	0	(18,000)	
Classified Advertising	2,000	2,000	2,000	0	
Miscellaneous Expenses	3,430	2,000	4,100	2,100	
Equipment & Furniture	250	1,974	0	(1,974)	
Books/Reference Materials	540	2,000	595	(1,405)	
Computer Equipment	9,900	2,480	0	(2,480)	
Total Budget	\$ 3,446,341	\$ 2,883,335	\$ 3,101,867	\$ 218,532	
Full Time Equivalent Staff	21	21	21	0	

EXPLANATIONS OF VARIANCE

¹Classified Salaries & Other Salary Costs – The FY 2013 forecast included several vacancies throughout the year.

CUSTOMER BENEFITS

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTES: 98

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Enhanced Customer Benefits member interactions, through:
 - engaging 435,169 members through calls (171,113 at ERS and 244,784 at ACT),
 - meeting with 5,336 visitors,
 - responding to 13,936 emails,
 - promoting the “3 Steps-to-Retirement” process and increasing the retirement estimator self-service utilization,
 - completing a campaign to encourage Direct Pay participants to sign up to have their monthly insurance premiums electronically deducted from their bank account,
 - reconciling the premium waiver population to identify and correct enrollment, as well as creating reports and processes to catch incorrect drops or enrollments on a monthly basis, and
 - processing corrections to over 3,400 records in ERS OnLine to appropriately align Medical Support Orders that had been identified by UHC.

Fiscal Year 2013 Accomplishments (continued):

- Reconciled and distributed 102,470 1099s to members and beneficiaries who were issued payments in calendar year 2012.
- Issued more than \$1.49 billion in payments for retirees, beneficiaries, and retirement account withdrawals.
- Processed more than 513,000 pieces of incoming and outgoing mail and more than 120,000 work list requests.
- Conducted intensive cross training for staff.
- Completed the initial flexible engine rules for the Oracle Policy Automation project, through:
 - performing system testing,
 - posting migration validation,
 - monitoring processes by following migration for calculations related to QDRO members, CPO retirees with Additional Service Credit (ASC), and
 - implementation of the retirement and death eligibility and calculation rules.
- Completed the evaluation to identify Integrated Voice Response (IVR) service improvements for our members.
- Provided support for the PeopleSoft Security Redesign initiative.
- Implementation of the HealthSelect Medicare RX for Medicare eligible participants, through:
 - determining system requirements, performing testing, and updating eligibility, and
 - participating in the Medicare Retiree Information Sessions, servicing these members through calls, visits and emails.
- Oversaw the customer service aspects of Annual Enrollment, including:
 - assisting in identifying system requirements,
 - performing system testing and updating eligibility,
 - coordinating with CAR to identify communication needs and coordinate avenues to promote communication, and
 - continuing the roll out of the Tobacco Premium differential including certifying tobacco on all interactions (calls, emails, and visitors) where members are not certified.
- Implementation of the Evidence of Insurability online process with Minnesota Life, through:
 - identifying business and system requirements,
 - developing new screens for ERS OnLine, and
 - performing testing and system validation as required for processing and consistency.
- Implementation of the new Short and Long-term Disability vendor through: Identifying business and system requirements and system validation as required for continuity of benefits and consistency of information.
- Started the coordination and review of Taxpayer Identification Numbering System (TINS) conversion project with Texas Comptroller of Public Accounts.
- Support Legislative process, through:
 - bill analysis,
 - cost estimates, and
 - beginning work on implementation of passed bills.

MAJOR FISCAL YEAR 2014 INITIATIVES

In addition to on-going customer service calls and visits:

- Implement legislative changes:
 - send notice of account information to non-contributing members in support of legislation regarding interest on account balances being reduced from 5% to 2%, (Strategic Direction #1)
 - define and identify member's that are grandfathered with no legislative changes in retirement benefit calculation, including system identification and testing benefit calculations, (Strategic Direction #1)
 - implement the new retirement rules for members who are hired on or after September 1, 2013, (Strategic Direction #1) and
 - implement other legislative changes through identification of rules, system changes, member notification and customer support.
- Reconcile and provide 1099 R's for retirees, beneficiaries, survivors, and members who received payments in calendar year 2013, along with reporting the data to the IRS. (Strategic Direction #4)
- Prepare and conduct annual enrollment and fall enrollment periods for members to make changes to their Group Benefits Program options. (Strategic Direction #2)
- Reinstate the enrollment of age 65 retirees into the Health Select Medicare RX program once SilverScript is in good standing with CMS. (Strategic Direction #2)
- Develop, review, and analyze a RFP for IVR support and enhancement, and include overflow options. (Strategic Direction #4)
- Work closely with IS and Finance in allocating resources for pension and OPA system improvements and data corrections, including the development of scenarios, testing, and regression testing. (Strategic Direction #4)
- Support and participate in the updating and testing of the business continuity plan. (Strategic Direction #4)
- Support and participate in the Enterprise Risk Assessment review and analysis. (Strategic Direction #4)
- Review and test the PeopleSoft Security Redesign to ensure continuation of service to members and system access for appropriate workflows. (Strategic Direction #4)
- Participate in the evaluation, selection, and implementation of the dental providers to include a discount dental program. (Strategic Direction #2)
- Coordinate and implement new requirements issued by the CPA for changes to all payees under the TINS project. (Strategic Direction #4)
- Re-evaluate the processes supporting tobacco certification.
- Continue review of processes to look for efficiencies, member access and savings:
 - evaluate member survey process, (Strategic Direction #4) and
 - evaluate options for sharing of secure member data between ERS and vendors. (Strategic Direction #4)
- Support internal and external audits in request for data, processes, procedures and reporting.

CUSTOMER BENEFITS FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$4,194,001	\$3,882,435	\$4,482,742	\$ 600,307	
Other Salary Costs ¹	1,339,828	1,209,959	1,413,152	203,193	Note 17
Medical Services	50,750	76,000	69,100	(6,900)	Note 2
Computer System Services ²	75,000	0	250,000	250,000	Note 15
Consulting Services	50,000	50,000	0	(50,000)	Note 15
Professional Services - Edu.	2,397	5,697	15,598	9,901	Note 12
Travel	20,100	23,000	20,900	(2,100)	
Supplies & Materials	2,200	2,200	2,000	(200)	
Telecommunications	171,000	150,000	180,000	30,000	
Reproduction Services	0	1,800	0	(1,800)	
Employee Training	26,390	19,000	30,240	11,240	
Subscriptions and Electronic Communications	36,639	36,639	36,535	(104)	
Membership Fees	3,354	3,354	12,553	9,199	
Contract Temps & Data Entry ³	75,000	335,000	113,744	(221,256)	
Classified Advertising	800	800	1,200	400	
Miscellaneous Expenses	5,838	5,838	1,060	(4,778)	
Other Contracted Services	1,234,400	1,112,210	1,012,732	(99,478)	Note 18
Equipment & Furniture	500	3,000	3,200	200	
Books/Reference Materials	7,705	7,705	705	(7,000)	
Computer Software	0	0	0	0	
Computer Equipment	1,000	22,181	0	(22,181)	
Total Budget	\$ 7,296,902	\$ 6,946,818	\$ 7,645,461	\$ 698,643	
Full Time Equivalent Staff	97	97	98	1	

EXPLANATIONS OF VARIANCE

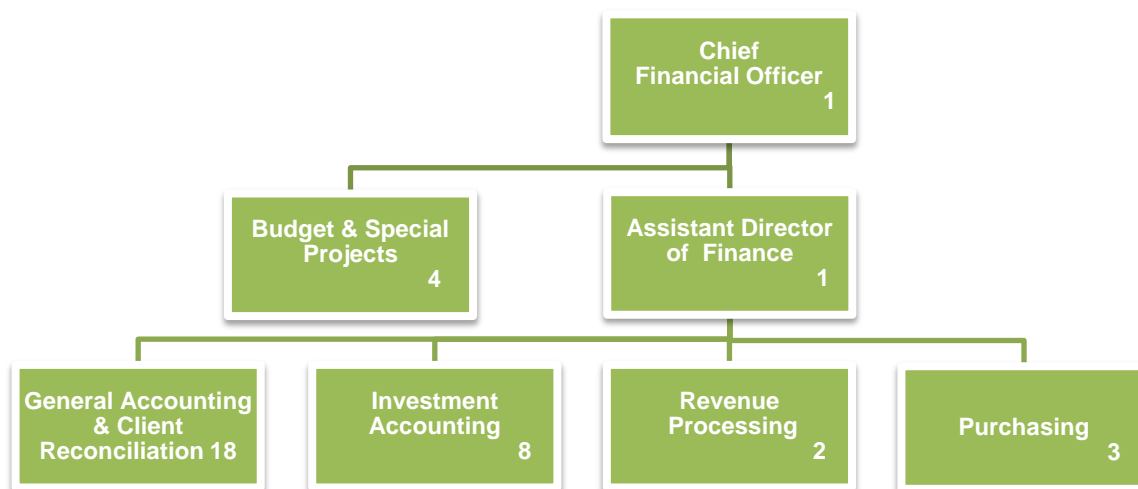
¹Classified Salaries and Other Salary Costs – The FY 2014 Budget assumes a higher staffing rate than experienced in FY 2013. On average, 92% of positions were filled by permanent staff throughout FY 2013. The variance is also partially offset by the use of contract temporary staff to fill vacant contact center positions.

²Computer System Services - Increase due to the implementation of the enhancements, or potential replacement, of the Hosted IVR.

³Contracted Temps & Data Entry – Salary lapse was used to fill contact center vacancies with contract temporary staff.

FINANCE

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 37

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Utilized improved SharePoint technology to efficiently collaborate with Executive Office to prepare 116 cost estimates for the 83rd Legislative Session.
- Managed and coordinated the audit and completion of the FY 2012 CAFR for ERS, and received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 24th consecutive year.
- Prepared Fiscal Year 2014 Administrative Operating Budget, monitored division budgets and processed over 85 budget transfers.
- Assisted in the testing and implementation of the upgrade for eFront Financial Solutions.
- Coordinated and tested the implementation of the new reporting in eFront Financial Solutions for the Alternative Investment reconciliation process.
- Assisted with the preparation of the Comptroller's TINS conversion to be implemented in March 2014.
- Collected data and prepared quarterly Roadmap Status reports for the Board of Trustees and agency management.
- Successfully implemented the upgrade of Eagle Investment Systems.
- Coordinated purchasing for 16 large solicitations and more than 1,100 purchase requisitions.
- Increased security for transmitting sensitive information.
- Developed a Microsoft Access database to reconcile the fair value of alternative investments reported by the general partner to the one reported in the general ledger and the Eagle Investment Accounting System.
- Completed the review and selection of the new Investment Accounting Data Warehouse.

Fiscal Year 2013 Accomplishments (continued):

- Assisted in the testing and implementation of new requirements from the 82nd Legislative Session, including:
 - retirement contribution rate change, and
 - two new vendors:
 - Aon Hewitt - Long term & Short term disability program, and
 - SilverScript - EGWP + WRAP Medicare Part D program.
- Conducted the following estimated financial transactions for FY 2013:
 - Revenue Processing
 - processed 66,377 checks,
 - processed approximately 20,795 BPAY warrants totaling over \$2 billion, and
 - sent over 3,106 deposits totaling \$2.6 billion to the Comptrollers for deposit.
 - Purchasing
 - coordinated 16 large solicitations,
 - coordinated close to 1100 purchases, and
 - coordinated close to 200 purchase order revisions.
 - General Accounting
 - 2,100 invoices for administrative expenses were processed,
 - 616 invoices for insurance claims totaling \$2.7 billion have been processed,
 - 607 travel vouchers totaling \$541,322 were processed,
 - 355 W-2 forms for agency employees were processed for the calendar year of 2012, and
 - 4701 W-2 forms for employees with disabilities were processed for the calendar year of 2012.
 - Client Reconciliation
 - \$87 million in TexFlex claims were processed,
 - 4,090 service purchases totaling \$46.2 million were processed, and
 - 28 tests were performed on the PeopleSoft Pension system.
 - Investment Accounting
 - modified and completed the general ledger transaction detail process improvement reporting for the Alternative Investment reconciliation purpose,
 - developed a Microsoft Access database to reconcile the STAR accounting data and the PACE warehouse data in the Eagle Investment Accounting System,
 - modified and Implemented audit recommendations by creating and testing security roles and procedures to strengthen internal controls,
 - setup of 6 new portfolios in domestic, fixed income and infrastructure security markets and the opening of 17 new funds which consist of 7 funds in the private equity, 6 funds in the private real estate and 4 hedge funds,
 - the investment accounting management of 12 investment pools and monthly reconciliation of more than 70 investment portfolios grouping many different investment accounts, within some of these portfolios, each international currency traded by ERS (approximately 35) is reconciled monthly, and the reconciliation process also includes general ledger reconciliations, securities lending and tax reclaims, resulting in more than 4,500 completed reconciliations annually, or more than 375 reconciliations performed each month,
 - 80 wires totaling \$4.3 billion were processed for pension and insurance,
 - 464 wires totaling \$1.5 billion were processed for United Health Care payments, and
 - daily cash settlements of the buying, selling, income and expenses swept from the custodian bank to ERS-totaling \$1.7 billion in income, \$10.9 billion in purchases, and \$10.1 billion in sales for FY2013.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Coordinate the Actuarial Valuation Reports. (Strategic Direction #1)
- Implement new Actuarial Tables. (Strategic Direction #1)
- Support the FY 2013 Financial Audit. (Strategic Direction #4)
- Prepare the FY 2013 Comprehensive Annual Financial Report for ERS.(Strategic Direction #4)
- Enhance Investment Reconciliation and Reporting System. (Strategic Direction #4)
- Coordinate and prepare the FY 2015 Operating Budget for ERS. (Strategic Direction #4)
- Implement legislative changes. (Strategic Direction #3)
- Coordinate and prepare the Legislative Appropriation Request. (Strategic Direction #4)
- Support PeopleTool/Oracle upgrade. (Strategic Direction #4)
- Continue work on improving Clarity reporting. (Strategic Direction #4)
- Continue work on improving processes for alternative investments programs. (Strategic Direction #4)
- Coordinate with the Information Systems Division and Customer Benefits to improve processes for member services through pension enhancements in PeopleSoft. (Strategic Direction #4)
- Support Agency Strategic Plan development. (Strategic Direction #4)

FINANCE FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$1,945,264	\$1,837,104	\$2,267,885	\$430,781	Note 17
Other Salary Costs ¹	557,626	523,338	631,128	107,790	
Actuarial Services ²	607,253	607,253	507,253	(100,000)	Note 5 & 13
Audit Services - Other	0	0	0	0	Note 12
Professional Services - Edu.	3,800	3,800	6,700	2,900	
Travel	12,731	12,731	10,705	(2,026)	
Supplies & Materials	1,800	1,800	1,800	0	
Telecommunications	0	0	0	0	
Rental of Space	1,600	1,600	1,600	0	
Reproduction Services	0	0	0	0	
Employee Training	19,414	15,514	18,871	3,357	
Subscriptions and Electronic Communications ³	20,455	21,955	221,361	199,406	
Membership Fees	3,255	2,995	3,205	210	
Contract Temps & Data Entry	0	30,500	0	(30,500)	
Classified Advertising	800	800	800	0	
Miscellaneous Expenses	2,965	2,965	2,965	0	
Interest-Delayed Payments	200	65	200	135	
Equipment & Furniture	1,000	1,600	1,600	0	
Books/Reference Materials	1,400	800	1,400	600	
Computer Equipment	0	20,414	0	(20,414)	
Total Budget	\$ 3,179,563	\$ 3,085,234	\$ 3,677,473	\$ 592,239	
Full Time Equivalent Staff	35	35	37	2	

EXPLANATIONS OF VARIANCE

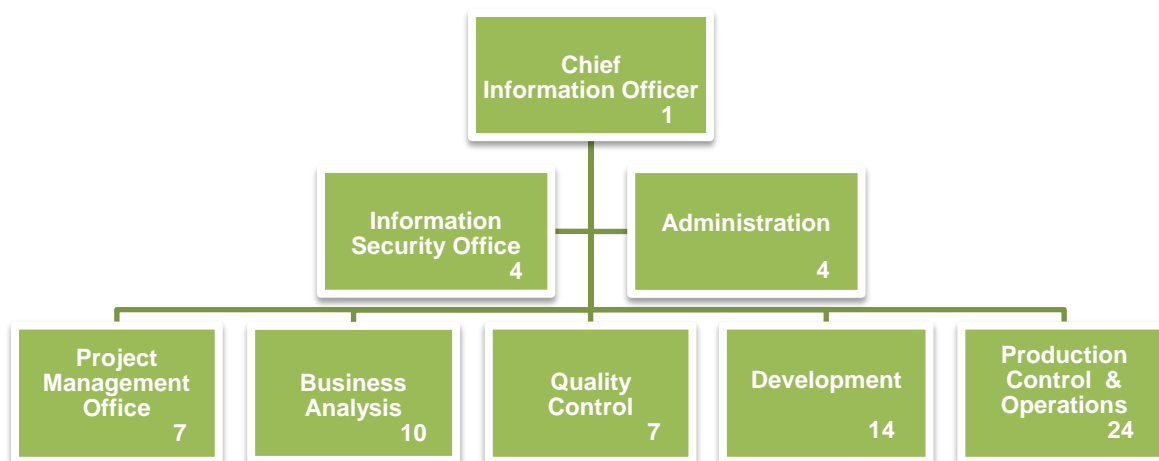
¹Classified Salaries and Other Salary Costs – One new position will be added to support investment accounting and one position is added to support the legislative changes to retirement.

² Actuarial Services – The rate of services decreased due to the competitive bidding process. Also there is less demand for services in a non-legislative year.

³Subscriptions & Electronic Communication – The increase is a result of implementing the Investment Accounting Database Warehouse to be used by Investment Operations and Investment Accounting for reconciliation and reporting purposes.

INFORMATION SYSTEMS

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 71

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Began a detailed analysis of the Benefit Administration module with the results indicating additional options, other than the Oracle Policy Automation (OPA) tool, should be considered before implementing any given solution.
- Implemented various improved site designs for collaboration and workflow in the Enterprise Content Management (ECM) environment. These improvements offer a more intuitive user experience with workflows and document collaboration.
- Upgraded production servers for all applications and databases, including the operating system to increase performance and ensure continued vendor support.
- Upgraded ERS Online, Financial, and HR databases to Oracle 11G. The upgrade allows ERS to use the latest tuning and tools to improve performance and continued stability in our production environments.
- Developed workflow and collaboration sites supporting Security Access Request, Correspondence Management system, Legislation and Data Request Groups.
- Enhanced the Correspondence Management System to use improved workflows, additional fonts, and an improved user interface.
- Supported 83rd Legislation related analysis and data request.
- Implemented Employer Group Waiver Plan (EGWP) achieving a 97% enrollment rate providing cost effective coverage to 73,298 retiree members.
- Implemented Short Term / Long Term Disability vendor install.
- Provided project management for the Board of Trustee Election effort.
- Implemented the Qualified Domestic Relation Order (QDRO) rules in Oracle Policy Automation. Project included strengthening the regression testing script library and use of automated testing.

Fiscal Year 2013 Accomplishments (continued):

- Enabled business partners to directly update the 1099-R form using the correspondence management system. This allows the business teams to implement annual changes with less dependence on developers.
- Upgraded Eagle Investment Accounting System to version 11.
- Supported Interim Benefits Studies.
- Developed a System Integration map/diagram.
- Enhanced open enrollment system processing to improve performance by approximately 50% through improved table and data management.
- Improved efficiency of Disaster Recovery testing using newly implemented technology.
- Formed a cross-team SEE committee to actively address SEE findings.
- Developed a server vulnerability risk ranking matrix enabling security and enterprise systems to quickly evaluate severity and priority of potential vulnerabilities.
- Mapped ERS' logical network architecture identifying relationships between systems and data.
- Tailored and deployed the Security Awareness Program. All agency employees completed the online training program within 1 month. HR engages new hires during the onboarding process ensuring continued 100% participation.
- Automated a paperless Access Request Form for PeopleSoft access using SharePoint forms and workflows.
- Modifications to improve efficiencies and deliver new features in managing phone systems.
- Provided Microsoft Office training to 120 staff members.
- Strengthened IT security:
 - developed and deployed Network Intrusion Protection System,
 - enhanced Data Loss Protection (DLP) strengthening Web and email personal identifiable information detection capabilities,
 - conducted multiple security reviews covering SFTP access, IVR systems, and DMZ and Active Directory access, and
 - launched agency wide Information Security Office monthly newsletter delivered via SharePoint.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Implement an enterprise solution for encryption and transferring of incoming and outgoing files on the ERS SFTP server. The solution will be designed to increase efficiency and transparency in ERS's management of 200+ data exchange partners' contact and security keys information. (Strategic Direction #4)
- Collaborate with ERS Legal to assess the feasibility of updating the Pro-Law application for the purposes of maintaining case related documents and improving workflow and usability. (Strategic Direction #4)
- Complete the PeopleSoft Security Access re-design to revise PeopleSoft security role assignments and the role/user assignment process to improve management of access privileges to data and processes. (Strategic Direction #4)

INFORMATION SYSTEMS FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$4,852,389	\$4,581,265	\$5,436,566	\$ 855,301	
Other Salary Costs ¹	1,182,635	1,115,468	1,348,013	232,545	Note 17
Computer System Services ²	1,855,800	2,559,900	2,425,550	(134,350)	Note 4
Professional Services - Educational	20,000	36,000	10,000	(26,000)	Note 12
Professional Services - Other	106,415	85,595	75,000	(10,595)	
Travel	43,500	29,646	48,400	18,754	
Supplies & Materials	1,300	2,722	3,300	578	
Telecommunications	367,034	279,488	325,700	46,212	
Repair & Maint. Equip & Furniture	38,000	29,096	38,000	8,904	
Repair & Maintenance - Computer ³	929,433	817,061	972,420	155,359	
Rent on Computer Software & Equipment	859,885	678,870	684,730	5,860	
Employee Training	82,000	78,209	86,300	8,091	
Subscriptions and Electronic Communications	21,900	79,456	83,000	3,544	
Membership Fees	5,680	5,191	6,400	1,209	
Contract Temps & Data Entry	0	10,200	0	(10,200)	
Classified Advertising	0	420	1,500	1,080	
Miscellaneous Expenses	12,700	12,865	12,700	(165)	
Other Contracted Services	39,000	99,402	10,500	(88,902)	
Equipment & Furniture	10,500	20,907	2,000	(18,907)	
Books/Reference Materials	1,000	4,289	4,500	211	
Computer Software	398,000	428,790	344,050	(84,740)	
Computer Equipment ⁴	7,500	196,373	6,000	(190,373)	
Telecommunications Equipment ⁵	27,000	346,258	23,000	(323,258)	
Building Improvements	12,000	9,000	9,000	0	
Total Budget	\$ 10,873,671	\$ 11,506,471	\$ 11,956,629	\$ 450,158	
Full Time Equivalent Staff	66	66	71	5	

EXPLANATIONS OF VARIANCE

¹Classified Salaries & Other Salary Costs – The FY 2014 Budget assumes a higher staffing rate than experienced in FY 2013. Two new project managers and one systems analyst were added to support agency projects and initiatives. Two positions were reallocated for research and technical planning and administrative services.

²Computer System Services – Decrease is due to the following agency projects being started and funded in FY 2013:

- Implementing Legislative changes from the 83rd Legislative Session.
- Enhancing PeopleSoft Pension, Oracle Policy Automation (OPA), and OPA System Enhancements.
- Improve Business Intelligence Data Warehouse (BIDW) Reporting and Transfer of Knowledge.

³Repair & Maintenance - Computer – Increase is due to product maintenance fees increasing for the following items:

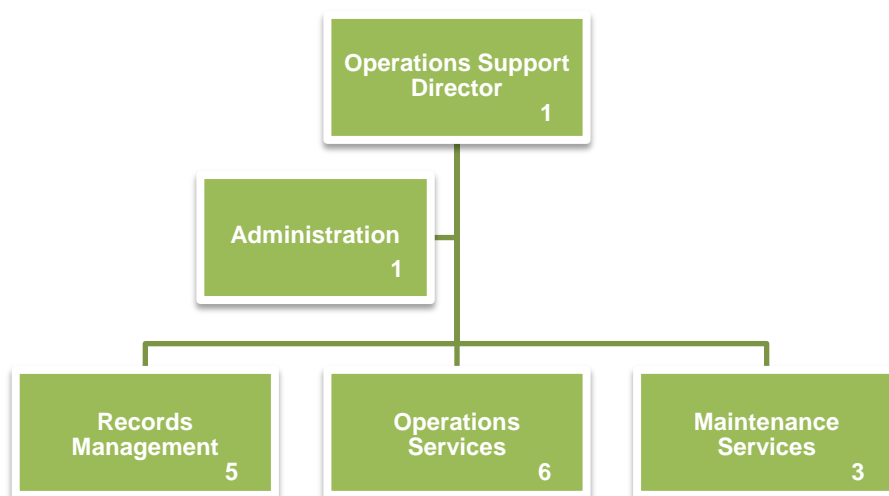
- Cisco routing hardware.
- Extended Support for Oracle 10.2.
- Knowledge Lake software maintenance.
- IBM server equipment maintenance.
- Maintenance for the data loss prevention tool.
- Maintenance for the VMware software application for the servers.

⁴Computer Equipment – Scheduled PC Laptop refresh funded with FY 2013 funds.

⁵Telecommunications Equipment - Telecommunications equipment, specifically the telephony and network equipment is being refreshed/upgraded using FY 2013 funds. Typically this refresh is conducted every 3 years.

OPERATIONS SUPPORT

ORGANIZATIONAL CHART – FISCAL YEAR 2014



TOTAL FTEs: 16

FISCAL YEAR 2013 ACCOMPLISHMENTS

- Improved energy efficiency by reducing consumption:
 - replaced 4 rooftop AC units,
 - replaced water heaters, and
 - converted pneumatic controls on chiller (HVAC) to direct digital controls.
- Implemented Records Management training and consulting program:
 - developed one-hour training modules and presented 4 training sessions, and
 - continued to train division staff on classification and tagging of records in SharePoint.
- Upgraded/retrofitted Electrical Motor Control Center.
- Statistics for major accomplishments are listed below:
 - Records Management – services provided to internal agency customers:
 - scanned approximately 147,000 images of incoming mail regarding members;
 - scanned approximately 105,000 images of confidential information: PHI, Disability, Legal and Grievance case files; and
 - shredded approximately 22,000 pounds of confidential records.
 - Operations Services: Over 1,106,643 pieces of mail processed,
 - Maintenance Services: Over 3,415 work orders completed.

MAJOR FISCAL YEAR 2014 INITIATIVES

- Building Maintenance and Repair: repair parapets and building envelope,
- Improve energy efficiency by reducing consumption:
 - replace exterior lighting with LED lighting, and
 - replace water heaters.
- Expand Records Management training and consulting program:
 - develop additional one-hour training modules, and
 - continue to work with classification and tagging of records in SharePoint.
- Support Summer and Fall Enrollment activities.
- Distribute 1099-Rs.

All the above Operations Support initiatives support Strategic Direction #4.

OPERATIONS SUPPORT FISCAL YEAR 2014 BUDGET

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries	\$672,006	\$655,650	\$722,696	\$ 67,046	
Other Salary Costs	240,110	237,046	256,099	19,053	Note 17
Consulting Services	3,000	3,150	4,000	850	Note 10
Professional Services - Edu.	200	0	200	200	Note 12
Professional Services - Other	11,000	7,160	8,000	840	
Architectural Services	15,000	9,500	10,000	500	
Travel	200	700	1,800	1,100	
Supplies & Materials	227,225	227,225	227,225	0	
Telecommunications	0		0	0	
Utilities	313,000	265,500	313,000	47,500	
Repair & Maint. Equip & Furniture	13,900	13,900	13,900	0	
Repair & Maintenance - Computer	9,000	9,000	9,000	0	
Repair & Maint. Land & Building	352,620	345,470	350,620	5,150	
Rent on Office Equipment	304,642	304,642	263,742	(40,900)	
Rental of Space	23,040	23,040	23,040	0	
Reproduction Services	35,000	35,000	35,000	0	
Employee Training	15,475	11,500	13,620	2,120	
Subscriptions & Elec. Comms.	200	200	200	0	
Membership Fees	1,925	1,925	1,925	0	
Contract Temps & Data Entry	0	0	0	0	
Insurance	53,000	45,239	53,000	7,761	
Classified Advertising	1,000	0	1,000	1,000	
Miscellaneous Expenses	13,345	20,495	14,745	(5,750)	
Postage	838,812	725,000	696,061	(28,939)	Note 19
Other Contracted Services	45,950	34,450	43,950	9,500	
Security Guard Services	1,500	1,350	1,500	150	
Equipment & Furniture	21,500	21,500	21,500	0	
Books/Reference Materials	300	0	300	300	
Computer Equipment	1,400	1,240	1,240	0	
Building Improvements	146,000	189,745	120,000	(69,745)	
Total Budget	\$ 3,360,350	\$ 3,189,627	\$ 3,207,363	\$ 17,736	
Full Time Equivalent Staff	16	16	16	0.00	

EXPLANATIONS OF VARIANCE

There are no significant variances.



EXHIBIT A

Employees Retirement System of Texas

FULL TIME EQUIVALENT COMPARISON FY 2013 vs. FY 2014

DIVISION	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	ADDITIONAL REQUESTS (C-B)
Executive Office	6	8	7	(1)
Legal	17	16	17	1
Internal Audit	3	3	4	1
Governmental Relations	4	3	3	0
Human Resources	4	4	4	0
Communication & Research	16	16	17	1
Investments	61	61	67	6
Benefit Contracts	21	21	21	0
Customer Benefits	97	97	98	1
Finance	35	35	37	2
Information Systems	66	66	71	5
Operations Support	16	16	16	0
Agency Total	346	346	362	16

EXPLANATION OF ADDITIONAL & TRANSFERRED POSITION REQUESTS

Executive Office – One position was reallocated to Information Systems.

Legal Services - One new general counsel position was added to support additional complex investment transactions in real estate, private equity, and hedge funds.

Internal Audit – One new auditor position was added to bring expense in-house in line with prior year levels of service and offset the need for contracted, co-sourced audit resources.

Communications and Research – An Information Specialist position was added to support additional program marketing and messaging to stakeholders.

Investments – Six new positions were added to support the new asset allocation approved by the Board of Trustees. Fixed income, infrastructure, and private equity each added a portfolio manager. Investment Operations added a financial analyst. Strategic research added an analyst and Administration added an executive assistant.

Customer Benefits – One position was added to support the legislative changes to retirement.

Finance – Two accountant positions were added; one to support additional Investment Accounting workload; one to support the legislative changes to retirement.

Information Systems – Two project managers were added to support agency strategic initiatives and projects. One systems analyst position was added to provide expertise with automated testing tools for application and environment changes supporting the quality assurance and testing section. One position was reallocated for administrative support and one position was reallocated for research and tactical planning.

EXHIBIT B

NOTES FOR CERTAIN CONTRACTS AND OTHER COSTS RELATED TO FY 2014 OPERATING BUDGET

PROFESSIONAL AND OTHER CONTRACTED SERVICES – The Executive Director is authorized to negotiate, enter into, and to administer contracts on behalf of ERS, including contracts for professional, consulting and other contracted goods and services and to disburse professional fees to persons or firms who render professional, consulting and other contracted goods and services to the Employees Retirement System of Texas (ERS). The Board hereby finds and determines, pursuant to Texas Government Code, Title 10, Sec. 2254.024(a)(6) and Sec. 2155.146, that the Professional, Consulting and Other Contracted Purchasing and Services authorized in this budget are necessary to the performance of its fiduciary duties under the state constitution.

- Note 1 This budget item includes \$400 per member per meeting plus actual travel expenses for the investment advisory committee. The Board has found and determined that the committee is necessary for the performance of the Board's constitutional fiduciary duties. See also Texas Government Code, Section 815.509.
- Note 2 This item is for the payment of medical board case review and certifications related to disability retirement applications and for the review of disability applications and continued disability certifications for ORP members. See also Texas Government Code Section 815.204.
- Note 3 The estimated advisory fees for FY 2014 are based on current contract fee schedules. Market values of global equities and fixed income are assumed to grow at rates of 9.25% and 5.6%, respectively, in accordance with the external consultant's capital market assumptions in effect at the time these estimates were calculated. Changes to existing contract rates, changes in advisors hired, or terminated by the Executive Director, or returns different than those used will impact the actual fees paid. Other investment counselors/advisor service contracts that are administered by the Executive Director, which are not included in the operating budget, but whose services the Board has found and determined to be necessary in the performance of its constitutional fiduciary duties, are estimated as follows:

Fisher Investment Institutional Group	\$2,213,561	
JPMorgan International	3,099,138	
JP Morgan Emerging	1,660,095	
Templeton Institutional	2,282,438	
Fountain Capital	496,287	
Legato	543,222	
Leading Edge	493,140	
Urdang	682,795	
Barrow Hanley	1,324,686	
Lazard	1,728,448	
Baring	1,428,067	
Omega	4,054,911	
ACWIXUS	1,500,000	
Emerging	1,333,333	
Small/Mid Cap	800,000	
Total	<u>\$ 23,640,121</u>	(estimated)

Notes for Certain Contracts Related to the FY 14 Operating Budget (continued)

- Note 4 This item includes application development & support for legislative changes, investments system management, system programming support, implementation analysis and development of all client-server applications.
- Note 5 This item is for independent actuarial firm(s) to provide independent actuarial consulting services for the pension program and the Texas Employees Group Benefits Program (TEGBP).
- Note 6 Legal services fees are budgeted to pay private legal counsel on an as needed basis to provide for legal counsel and advice on matters concerning the ERS employee benefits program including amending plan documents.
- Note 7 This item includes securities litigation consulting.
- Note 8 This item is for the payment of a financial audit of the System as required by statute.
- Note 9 This item is for the independent audits related to the TEGBP service providers and deferred compensation.
- Note 10 This item provides for ergonomic evaluations.
- Note 11 Included in this item are funds to pay for background checks.
- Note 12 This item includes in-house employee training courses conducted by professional trainers.
- Note 13 This item is for independent actuarial consulting services for legislative inquiries and GASB requirements for Post-Retirement Health Benefits.
- Note 14 Included in this item are funds to pay for the Employee Assistance Program.
- Note 15 This item includes computer system services and consulting services benefitting agency Approved projects.
- Note 16 This item is for contract auditors to assist with internal audits.
- Note 17 This item excludes retiree insurance allocation. For FY 2014, it is estimated that 137 former ERS employees have retired from the agency. The average annual insurance rate is \$6,920.16 resulting in a total retiree insurance amount of \$948,061.92 for ERS. Retiree insurance is a state requirement with no impact on current operations. The annual amount is presented in this note for informational purposes.
- Note 18 This item includes a contact center overflow contract in the amount of \$1,002,832.
- Note 19 This item includes major external vendors performing services performing regular business services for the agency.
- Note 20 This item includes other professional services including additional support writing, editing, and reviewing of materials.
- Note 21 This item includes Subscriptions and Electronic Communications in the Investment Division for investment analytical tools for fixed income & bonds, public equity, international equity and alternative investments.
- Note 22 This item includes investment banking paid to BNY Mellon for custody fees.

EXHIBIT C

2014 ROAD MAPS

NOTE: These “Road Maps,” developed as part of ERS planning effort, are a snapshot of major projects planned by the business areas and the Approved timeline.

This big picture planning effort helps ERS manage its resources to achieve these goals and facilitates coordination among the various ERS divisions.

AGENCY MAJOR PROJECTS											
SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
Implement Legislative Changes											
Conduct Enterprise Risk Assessment											
Update and Test Business Continuity Plan											
Select and Implement Dental Provider											
Complete Retiree Drug Subsidy Audit											
Model Alternative Plan Design with Current Contribution Rates											
Procure and Implement Long Term Care Contract											
								Replace International and Large Cap Funds in Texa\$aver			
Implement Accountable Practice Models with Third Party Administrator (TPA)											
Improve Insurance Data Warehouse Reporting and Transfer Knowledge											
Populate Centralized Online Research Library											
Implement Website Usability Review Enhancements											

2014 ROAD MAPS (CONTINUED)

AGENCY MAJOR PROJECTS											
SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
Enhance Pension System and Rules Engine											
Implement Medicare Eligible Fall Enrollment			Evaluate Overflow and Call Center Automation Options			Enhance Investment Reconciliation and Reporting (DWIRE)			Coordinate and Develop Legislative Appropriation Request for FY 2015		
Implement New Actuarial Tables											
Accelerate Transition to New Asset Allocation											
Enhance Investment Risk Management			Research and Evaluate Implementing a Derivatives Program			Establish Internal Investment Support for Texa\$aver			Implement Encryption for Data Files from External Sources		
Redesign User Security Access for PeopleSoft Applications											

EXHIBIT D

FISCAL YEAR 2014 INVESTMENT RELATED BUDGET – OTHER DIVISIONS

	FY 2013 BUDGET (A)	FY 2013 FORECAST (B)	FY 2014 APPROVED BUDGET (C)	CHANGE (C-B) (D)
Legal Services -				
Classified Salaries	\$ 380,907	\$ 359,539	\$ 510,962	\$ 151,423
Other Salary Costs	74,369	69,128	105,076	35,948
Class Sal - Incent. Comp. Plan			151,267	151,267
Legal Services (Outside)	564,000	560,000	1,745,000	1,185,000
Finance Division -				
<i>Investment Accounting</i>				
Classified Salaries	405,072	336,320	472,777	136,457
Other Salary Costs	110,806	90,685	123,932	33,247
Subscriptions-Investment Accounting System			200,000	200,000
Internal Audit -				
Classified Salaries	80,000	66,667	80,800	14,133
Other Salary Costs	17,687	15,433	18,645	3,212
Information Systems -				
<i>Business Analysis</i>				
Classified Salaries	69,000	71,500	58,600	(12,900)
Other Salary Costs	16,404	16,391	15,171	(1,220)
Total Budget	\$ 1,718,245	\$ 1,585,663	\$ 3,482,230	\$ 1,896,567
Full Time Equivalent Staff	12	12	14	2

EXPLANATIONS OF OTHER DIRECT INVESTMENT RELATED COSTS

The FY 2012 Asset/Liability Study resulted in a more diverse portfolio which increased the complexity and workload for the agency.

Legal Services supports the Investments program through four positions, including General Counsel expertise and support staff to execute alternative investment trades. Outside legal services are also obtained to support alternative investment trades.

Investment accounting provides support for alternative investments through eight accounting positions to perform the reconciliation process. Research and procedures are performed to validate the fair value of additional alternative investments. Testing and monitoring of systems and reports are also necessary to ensure completeness. Periodic meetings of the alternative valuation committee are conducted to consider the accurate valuation of private equity, private real estate, infrastructure and hedge funds.

Internal Audit and Information Systems also each dedicate one position to contribute expertise to the Investment program.



EXHIBIT E

BUDGET TREND ANALYSIS (FY 2006 - FY 2014)

	FY 2006	FY 2007	FY 2008	FY 2009
Investment Budget*	\$5,312,814	\$11,890,740	\$13,526,617	\$18,047,598
Non-Investment Budget	\$26,491,929	\$31,136,745	\$33,403,082	\$34,476,618
Total Agency Budget	\$31,804,743	\$43,027,485	\$46,929,699	\$52,524,216
Investment Expenditure (Forecast)		\$8,398,163	\$11,209,437	\$12,842,652
Investment Advisory Fees	\$15,830,634	\$18,085,109	\$18,737,220	\$10,856,970
Investment Management Fees (PriE/PRE/HF/EM/Infstr/PubE/FI)**	\$397,193	\$1,367,156	\$6,077,860	\$12,788,968
Number of Investment Deals (PriE/PRE/HF/EM/Infstr/PubE/FI)**		3	2	12
Investment Division FTE's	29	45	52	56
Direct Investment-related Positions in Other Divisions	5	6	8	12
Non-Investment FTE's	262	263	267	272
Agency FTE's	296	314	327	340
Net Assets (Pension Funds)	\$22,442,492,578	\$24,460,276,281	\$22,384,273,034	\$19,938,287,862
Total Return	8.83%	13.88%	-4.58%	-6.60%
Benchmark Return	8.99%	12.06%	-5.51%	-7.55%
Over (Under) Benchmark Return	-0.16%	1.82%	0.93%	0.95%
Num. of ERS Accounts Maintained	193,539	200,300	208,068	215,578
Num. of Active ERS Members	132,952	133,036	135,171	141,779
Num. of ERS Retirees & Beneficiaries	68,171	71,060	73,266	76,335
Overall Customer Service Interactions (at both ERS & ACT beginning in FY 2012)	279,001	336,355	314,918	319,705

*The Investment Budget includes the Investment Division budget and any other positions that are directly Investment-related that reside outside the Investments' budget (i.e. Legal, Internal Audit, Investment Accounting, and Business Analysts); also included are outside Legal services for Investments.

FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
\$17,541,548	\$20,875,560	\$20,441,208	\$20,798,738	\$24,985,661
\$32,740,008	\$31,618,124	\$31,869,079	\$34,291,114	\$35,647,289
\$50,281,556	\$52,493,684	\$52,310,287	\$55,089,852	\$60,632,950
\$14,434,808	\$16,314,888	\$17,491,733	\$18,116,122 (est: as of 6/30/13)	
\$11,914,627	\$12,661,642	\$13,335,197	\$14,808,369 (est: as of 6/30/13)	\$23,640,121 (est.)
\$22,856,620	\$35,333,591	\$27,173,045	\$28,663,845 (as of 6/30/13)	
11	15	21	23	40
56	59	59	61	67
12	12	12	12	14
272	271	271	273	281
340	342	342	346	362
\$ 20,474,228,057	\$22,201,131,244	\$22,869,229,941	\$23,620,416,097 (as of 6/30/13)	
6.65%	12.58%	8.22%	11.34% (as of 7/31/13)	
6.80%	12.02%	8.11%	10.94% (as of 7/31/13)	
-0.15%	0.56%	0.11%	0.40%	
223,617	228,059	225,042	229,297 (as of 5/31/13)	
143,051	137,856	133,227	135,014 (as of 5/31/13)	
79,922	84,083	88,447	86,643 (as of 5/31/13)	
357,336	388,904	520,803	372,855 (as of 7/11/13)	

** PriE = Private Equity; PRE = Private Real Estate; HF = Hedge Funds;
EM = Emerging Manager; Infstr = Infrastructure; PubE = Public Equity; FI = Fixed Income.

INCREASES IN PROGRAM COMPLEXITY (FY 2006 - FY 2014)

FY 2007

- Added staff to equity and fixed income teams.
- Added investment tools for portfolio management and oversight.
- Established infrastructure to begin private equity investing.
- Broadened securitized real estate portfolio to include international stocks.

FY 2008

- Added two new staff positions to implement auto-enrollment in the 401(k) Texa\$aver program as required by legislation.
- Added nine staff positions to enhance public equity (4 Positions), private equity (2 positions) and investment back-office (3 positions) including additional resources for divestment legislation.
- Expanded asset classes.
- Began private equity investing.
- Board approved establishment of domestic equity mid-cap portfolio.

FY 2009

- Added eight investment-related positions; 5 in Investments, 1 each in Finance, Legal, and Information Systems.
- Added two contact center staff based on increased workload.
- Added a staff position in Information Systems and Budget to support increase in agency projects.
- Developed infrastructure for private real estate investing.
- Signed 12 private equity commitments.
- Developed and began funding emerging markets portfolio.

FY 2010

- Implemented a second retirement tier with new rules, actuarial tables, and various program changes as required by legislation.
- Implemented an insurance plan alternate payment program and coverage of bariatric surgery in a cost minimal manner as required by legislation.
- Expanded emerging markets portfolio.
- Increased commitments to private equity and private real estate.
- Developed a hedge fund strategy.
- Established a select pool for tactical implementation of external advisors.

FY 2011

- Implemented emerging manager program and external advisor website.
- Implemented major changes to the insurance plan due to funding shortage, including increases to copays and coinsurance paid by the member.
- Implemented Early Retiree Reinsurance Program to access federal funding.
- Conducted a dependent eligibility audit for the insurance plan.
- Added one portfolio manager for the hedge fund strategy.
- Developed a comprehensive risk reporting system for investments.

FY 2012

- Implemented Medicare Advantage Programs.
- Implemented tobacco use contribution differential.
- Expanded medical home/accountable care practice model pilot programs.
- Implemented the Roth option for the Texa\$aver program, 401(k) and 457 plans.
- Implemented a call center overflow contract with a vendor to help address a 50% increase in the number of annual customer contacts since 2005.
- Funded EAFE (Europe, Australasia, & Far East) and Domestic Large Cap advisors.
- Committed to first three hedge fund investments.
- Expanded external advisor website to include all asset classes.

FY 2013

- Implemented the complex Employee Group Waiver Plan (EGWP) plus wrap to increase federal revenue from Medicare Part D.
- Added two staff positions to Investments to support the hedge fund program and to support external advisors.
- Added one staff position to Legal to support complex investment transactions in alternative investments such as private real estate, private equity, and hedge funds.
- Began transition to the new asset allocation targets approved by the Board.
- Established the new infrastructure asset class.
- Increased commitments to private equity, private real estate, hedge funds, emerging markets, and infrastructure.

FY 2014 - Approved

- Implement a third retirement tier with new rules, actuarial tables, and various program changes as required by legislation.
- Document separate accounting and actuarial calculations for LECOS participants as required by legislation.
- Implement a new 0.5% retirement contribution from agency appropriations as required by legislation.
- Implement changes to the insurance program including 60 day wait, full time eligibility with 30 hours, and state contribution for retirees based on years of service as required by legislation.
- Implement a second insurance enrollment period in the fall for retirees.
- Add eight investment-related staff positions to Investments (1 each for fixed income, private equity, infrastructure, strategic research, operations, and administrative), Finance (1 for investment accounting), and Legal (1 for complex investments).
- Add eight staff positions to support numerous complex programs and projects including Information Systems (2 project managers, a systems analyst, and a business analyst), Customer Benefits (1 for pension system improvements), Finance (1 for pension system improvements), Communications and Research (1 marketing specialist for program support), and Internal Audit (1 auditor for internal audit support).
- Increased staff responsibility for the selection of external advisors as a result of the Board of Trustees delegation for an internal committee in selecting external advisors for the select pool.
- Increased number of hedge fund deals expected as hedge fund structures may be used in fixed income and equities asset classes.
- Increased staff and outside counsel fees related to the 40 investments deals expected (prior fiscal year 23 investment deals) with focus on negotiations of the most ERS favorable economic and governance/legal terms.
- Continuing development of investment program infrastructure to provide the best access, fees and terms with external managers.





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